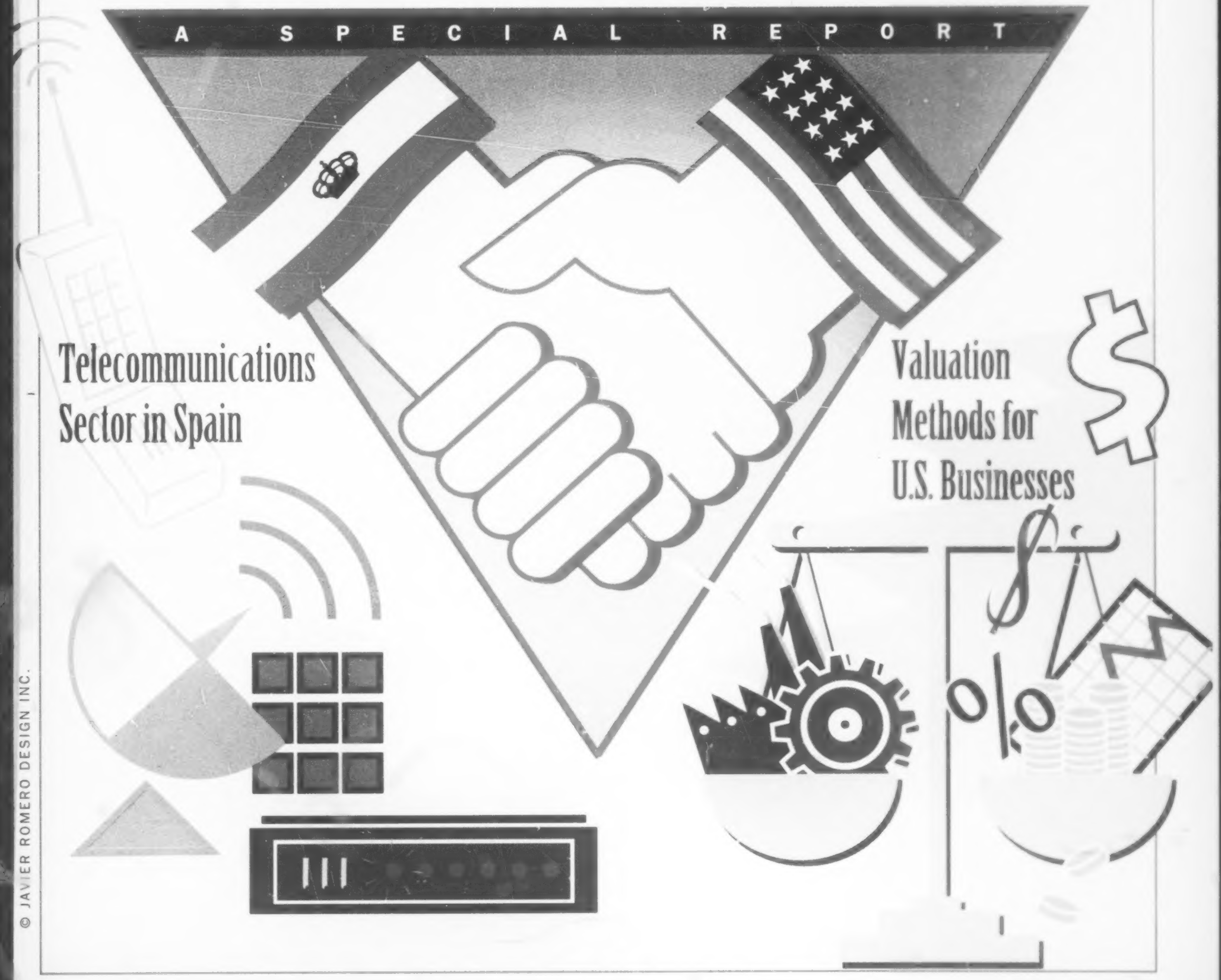
A° 7557

The Business LINK
SPAIN

Published By The Spain-USA Chamber Of Commerce
An American Non-Profit Membership Organization

Spain as a Business Partner: 1992 and Beyond

A SPECIAL REPORT



Telecommunications Sector in Spain

Valuation Methods for U.S. Businesses

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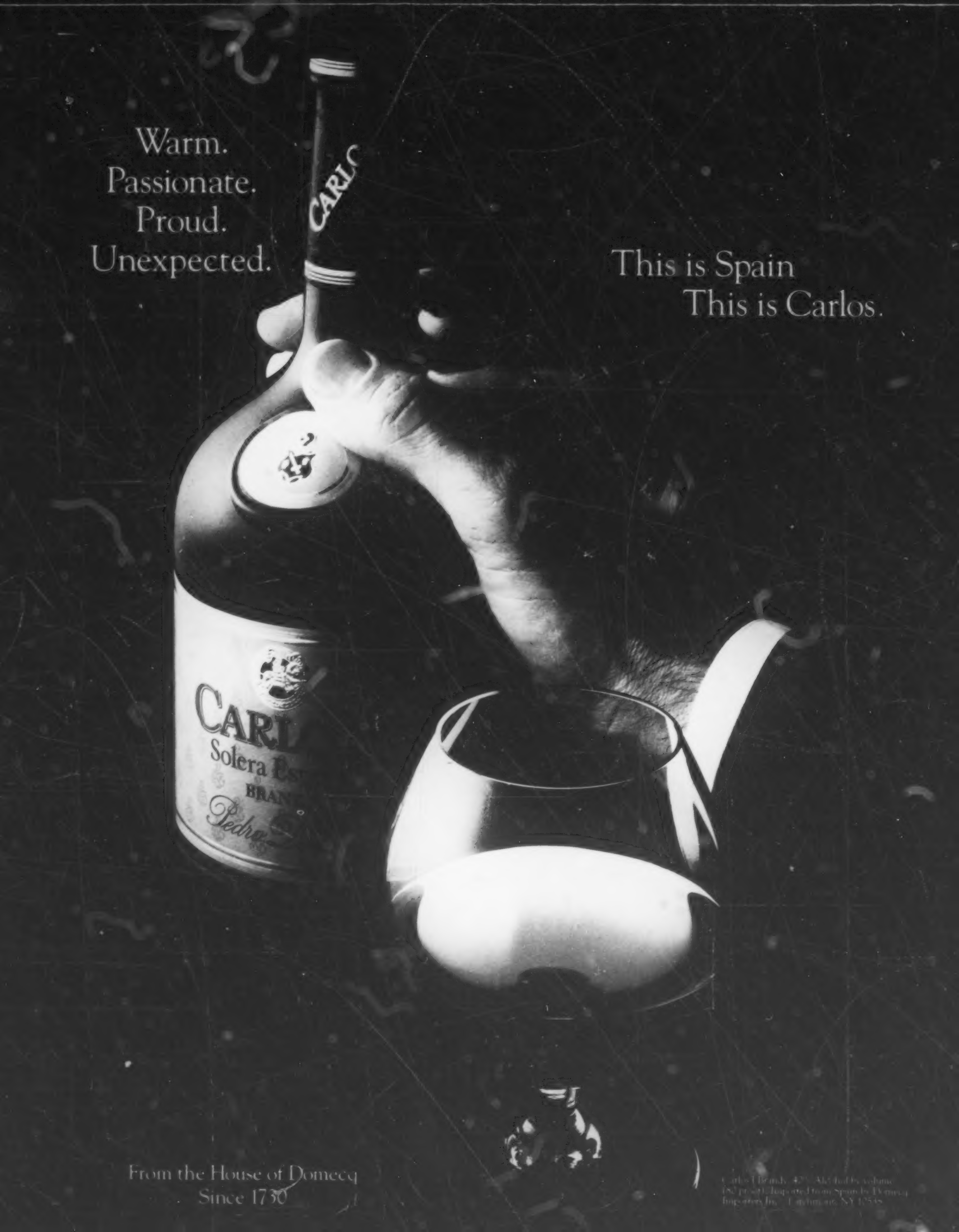

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The Spain-USA Chamber of Commerce

The Spain-USA Chamber of Commerce is a private non-profit American membership organization devoted to enhancing and developing trade and investment relations between Spain and the United States and Canada. Founded by entrepreneurs in 1959 in New York as a service to the Spain-USA business community, the Chamber draws from its corporate contacts, its relations with official institutions and its associations with other trade organizations to offer marketing services in four areas:

Business Development

The Chamber actively expands its membership base by targeting U.S.-based medium-size and large companies that want to establish or reinforce business relations with Spain. In this effort, a highly successful seminar about business opportunities in Spain entitled "Spain Today: The Emerging Platform for Business with Europe" was organized in New York City in September 1990.

Promotional Events

Promotional galas and conferences are organized to explore specific marketing and media opportunities in Spain-USA relations. Among the activities in 1991, the Chamber promoted the Barcelona '92 Olympics among U.S. business communities. Events included a business breakfast, press conference, the public debut of an 80-foot-tall Cobi, the Olympic mascot, above the entrance of the Plaza Hotel in New York and a gala dinner in honor of the 1992 Summer Olympic Games in Barcelona.

Cooperation Agreements with Spain

The Chamber has agreements with such regions in Spain as the Canary Islands, Asturias, Murcia, and Valencia, as well as with the Madrid Chamber of Commerce and IFEMA, Madrid's trade fair organization. Each region and institution has a U.S. representative based at the Chamber who works closely with U.S. companies.

Media Communications

The Chamber offers direct media access to a highly targeted audience of senior private and public sector decision-makers in Spain and the U.S. through the circulation of its quarterly financial and trade magazine, ***The Business Link****, its biannual* ***Link Directory*** *and its monthly* ***Link Letter,*** *to be launched in January, 1992.*

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[Special Report 2] From the financial legal, tax and trade perspectives, this quarter's Special Report explains why Spain and its autonomous regions are poised, now more than ever, to be an attractive platform for business with Europe. "Spain as a Business Partner: 1992 and Beyond" features the professional insights of experts in the Spain-USA business community and provides exclusive market overviews of the country's most dynamic regions. A collection of articles is complemented by reference lists, trade contacts and statistics, making this Special Report the most comprehensive one ever assembled by our magazine.

[U.S. Business 16] Spanish companies aiming to acquire joint venture interests in the U.S. will find in our U.S. Business section an in-depth financial discussion of fundamental valuation methods.

[Spain Survey 25] An analysis of telecommunications in Spain is our feature topic in the Spain Survey section. Pointing to Spain's need to close the technological gap with its European neighbors, the article explains how legislative reforms and unprecedented investment have set the stage for making this sector competitive.

—ALEXANDER ROBARTS
Editor-in-Chief

The Business LINK SPAIN

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Beyond 1992

Many historical developments will attract the spotlight of world media attention to Spain in 1992. It will test if 15 years of steady effort and progressive change have upgraded the Spanish democratic kingdom to meet the standards expected from any leading country in the world.

But while the organizing committees of the Olympic Games and the Universal Exposition polish details for next year's grand showcase, growing concern spreads among Spanish politicians and the business community about the challenge beyond 1992: a competitive domestic economy.

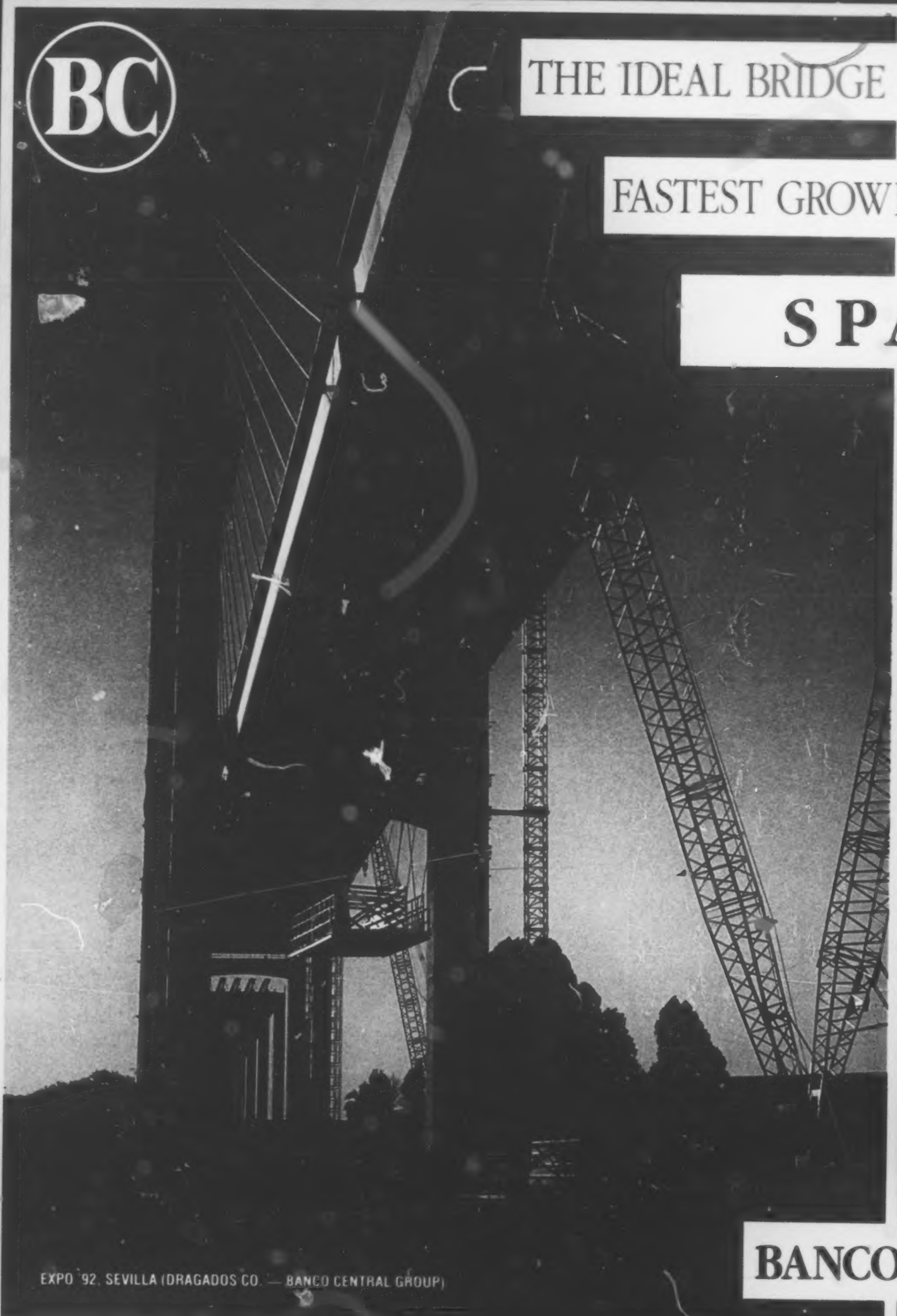
Fueled by impressive growth over the last few years and the investments related to the 1992 Olympics and the Universal Exposition, today's Spain is most receptive to new products and ventures with international companies willing to expand their operations in Europe.

Almost 15,000 U.S. and Canadian companies with annual revenues of $10 million and over have been approached by our Chamber as having outstanding opportunities to initiate or further develop their business with Spain. Thousands of smaller companies with state-of-the-art technology and advanced systems and know-how will also be in a unique position to profit from such a dynamic and creative economy.

We hope you will find this issue's special report on doing business with Spain useful and insightful. Furthermore, we expect it to encourage your company to find out more about how to take advantage of these opportunities. The Chamber and their sponsors are prepared to initiate a productive relationship while providing you with the additional information you may need. Do not hesitate to contact the professionals who have the expertise and know the facts.

It is our job to help you explore business opportunities with Spain. And your success will be our highest reward.

— MIGUEL SEBASTIA



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[The Chamber]

The 32nd Anniversary Gala

Chamber Salutes the 1992 Olympic Games; Organizes the Public Debut of 'COBI,' the Olympic Games Mascot

The Spain-USA Chamber of Commerce had the honor of commemorating the Barcelona Summer Olympics at its Annual Dinner Gala held on Friday, June 21st, at the Plaza Hotel. Mr. Pedro Fontana, General Director of Operations of the Organizing Olympic Committee of Barcelona '92 (COOB '92), was the guest of honor and Mr. Christopher Forbes of *Forbes* Magazine was the Gala Chairman.

Earlier in the morning there was a breakfast organized in honor of Mr. Fontana which was assisted by personalities from New York's business circle. This was followed by a brief official presentation of the Olympic mascot of Barcelona '92. For the first time, Cobi, as the mascot is called, was officially presented before the American public. A thirty-foot inflated Cobi appeared on top of the flag terrace in the main entrance of the Plaza Hotel, reigning over Fifth Avenue. Present at its "debut" were Mr. Trump, the owner of the Plaza Hotel, Mr. Pedro Fontana (COOB '92), Mr. Ricardo Jové, the Chamber's President, and Mr. Miguel

In the grand ballroom of New York's Plaza Hotel, guests enjoyed a gala evening.

CHAMBER SPONSORS PRESS CONFERENCE — On June 21st, the Spain-USA Chamber of Commerce organized a press conference and breakfast with Mr. Pedro Fontana, General Director of Operations of the Organizing Olympic Committee of Barcelona '92. The main topic addressed was the 1992 Olympic Games. In attendance were representatives of the press from Spain and the U.S. (L. to R Pedro Fontana, Miguel Sebastiá, Ricardo Jové and Adolfo Suarez).

The breakfast honoring Mr. Fontana at right, (L to R) Adolfo Suarez and Felix Valdes.

Sebastiá, the Chamber's Executive Director.

That evening the Gala dinner took place at the Plaza's Grand Ballroom. On the eve of its 32nd Anniversary, the Gala promoted the city of Barcelona in honor of the 1992 Olympic Games. Mr. Christopher Forbes, Vice-President of Forbes Magazines, presided over the Executive Committee that gathered diplomats and other personalities. Mr. Ricardo Jové and other Chamber dignitaries received the Gala's honor guest, Mr. Pedro Fontana.

The Gala Dinner began with a cocktail reception

Cobi, the adorable Olympic mascot, is seen at the Plaza Hotel in New York with Pedro Fontana.

Official Presentation of Cobi at the Plaza Hotel with Donald Trump, Ricardo Jové at right with Pedro Fontana .

The guests received gifts supplied by the Barcelona 1992 Olympic Committee and other sponsors during the gala evening.

La Tuna, *a traditional musical group, serenaded the audience.*

The Garota, *a folk group from Cataluña, sang "Habaneras," ballads sung by sailors who had come back to Spain from Cuba.*

which was followed by a brief speech from Mr. Sebastiá, who welcomed the honor guests and thanked Teléfonica, the sponsor of the Gala, for its support of the event. Mr. Jové, Mr. Fontana, and Mr. Forbes also addressed those present including, Mr. Javier Collar, Spain's Consul in New York. Finally, Mr. Jové thanked the members of the Honor Committee and invited those present to cheer for the King and Queen of Spain and the President of the U.S.

The night was filled with dance and music. In addition to the orchestra, there was live music from La Tuna, a traditional university musical group, that serenaded the audience. Guests also enjoyed the folk group, The Garota, from Cataluña, who sang Habaneras, ballads sung by sailors who'd returned from Cuba. There was also a raffle with a grand prize of a trip to Spain, and all guests received gift packages from the city of Barcelona.

The Business Link, the Chamber's quarterly magazine, presented Mr. Fontana, Mr. Forbes, and Mr. Suarez with the framed cover of the Summer 1991 issue's special report on the Olympic Games.

Each year the Dinner Gala offers companies the opportunity to establish business contacts within a more relaxed environment. Present at the Gala were representatives from major banks and Spanish institutions that are involved in bilateral trade between Spain and the U.S., financial and business entrepreneurs, members of the Consulate General of Spain, representatives from the press and American companies, such as Forbes, Merrill Lynch, Baker & McKenzie, and Peregrine White.

Ms. Bonnie Hoskins presents a raffle award.

(L to R) Miguel Sebastiá, receiving framed covers of The Business Link's *special report, Christopher Forbes, Pedro Fontana, and Adolfo Suarez.*

Goya introduces Tapas

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Call them appetizers or hors d'oeuvres or even elegant Spanish noshes, *tapas* are convivial eating. Invented in the taverns of Spain to provoke palate and conversation over a leisurely drink before dinner.

The drink's usually sherry. But it can be anything. It's the *tapas* that make the excitment. A great bar in Madrid could have as many as 70. Even the smallest bar, no fewer than five or six. But whatever they serve, it has verve.

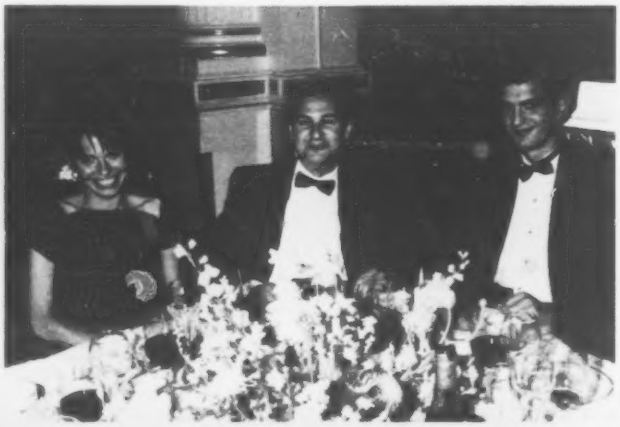
Fortunately for *aficionados* here, a *tapas* spread as varied as any in Spain is as close as your Goya Section. Look at our picture: Goya chick peas, seasoned & sauteed with onions. Goya mussels, shrimps & capers, marinated in Goya wine vinegar & extra-virgin Spanish olive oil; Goya pimientos & garlic, drizzled with that classic oil; cider-poached Goya *chorizos* & apples; and Goya *empanadillas*, little spicy meat-filled turnovers (frozen, ready to heat). And Goya's wonderful giant scalloped crackers.

Goya has all kinds of makings for *tapas*: from great green olives & tuna & artichoke hearts to octopus & codfish fritter mix. Explore them. And next time it's your place for drinks, you can introduce *tapas*. By you. And by Goya. Oh Boy-a!

Meet them at the Goya Section. Invite them over for drinks.

Want more Tapas ideas? Send stamped self-addressed envelope to Goya, Tapas, Secaucus NJ 07094

At the Guest of Honor table (L to R), David Peterson, Edgar House, Ricardo Jové, Karen Furukawa (Mrs. Adolfo Suarez).



Above: *(L to R) Miguel Angel Coello, Mrs. and Mr. Joseph A. Santello, Sheila M. Donovan, and Mario Diaz Cruz, III, Esq.*

Above right: *(L to R) Mrs. and Mr. Luis Mendoza and Alfonso Carcasona.*

At right: *(L to R) José Castelló, Diane Valcic, Alfonso Gonzalez and Louise Perez.*

(L to R) Mrs. and Mr. Thomas Luchese, Mr. and Mrs. Luis Gilabert, Mrs. and Mr. Mitch Mosalem, Mrs. Daniela Verbraeken, Mr. Jawad Salehi and Ms. Louise O'Conner.

Above: *Gala guests admire a handmade replica of one of Christopher Columbus' ships.*

Above left: *(L to R) Mrs. and Mr. Donald Dixon and Mrs. and Mr. Lake.*

At left: *Ricardo Jove addresses the Gala audience with (L to R) Pedro Fontana and Christopher Forbes.*

Chamber's Annual Meeting Welcomes New Board Members and Reelects Mr. Jové as President

Mr. Ricardo Jové and a panel of six new members of the Board of Directors were elected at the Annual General Luncheon held on June 27th at the Metropolitan Club. These members include: Mr. Andrew Alessandro of Associated Products Distributors, Mr. Alfonso Gonzalez of Banco Central, Mr. Patricio Barriga of Bra USA, Inc., Mr. Blake Davies of Fredericks Michael & Co., Mr. Luis Gilabert Jr. of Cargo Express International and Ms. Eileen Foley of the Cola-Cola Export Company.

Mr. Jové, reelected unanimously for a third one-year term, addressed those present. In his annual report, Mr. Jové spoke about the Chamber's activities during 1991 and what lies ahead for the rest of the year. Mr. Jové emphasized the Chamber's continuing goal of promoting Spain. To illustrate this, he outlined the Chamber's most ambitious project to date, a promotional tour of nine cities in the U.S. and Canada. "Spain 1992 and Beyond: A Presentation of Multi-Industrial Business Opportunities with Spain", as this series of presentations is called, will aim to inform American companies about their possible trade and investment opportunities with Spain.

Mr. Jové also talked about the success of this year's Annual Dinner Gala dedicated to the Barcelona '92 Olympic Games and also highlighted the importance of *The Business Link*, the Chamber's quarterly magazine, for its quality and performance.

In his address, Mr. Jové introduced Mr. Miguel Matilla, the Chamber's new Deputy Director. He also stressed the continued importance of cooperation with the Commercial Office of Spain and other Chambers of Commerce in Spain. He added that three cooperation agreements had been signed with the regional offices of the Canary Islands, Valencia, and Murcia, from which the Chamber will have three new representatives. Ω

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New Faces at The Chamber

Susana Ramirez recently joined the Chamber's staff. Her experience in computer systems will be a major asset in her work to reorganize the Chamber's current data processing and programming system. Ms. Ramirez will be assisting in the coordination of the Chamber's 1991 Trade Promotion Tour of U.S. and Canada.

Prior to joining the Chamber's staff, she has worked for Customized Data Base Systems in New York. Ms. Ramirez is studying interior decoration at the Fashion Institute of Technology in Manhattan and resides in Cliffside, New Jersey.

Susana Ramirez

Ramoni López

Lydia Bagaria

Inés Sentmenat

Ramoni López a native of Murcia, Spain is pursuing a degree in Business Administration from the University of Murcia where she is majoring in Commerce. In 1989, Ms. López obtained an ERASMUS scholarship and spent three months at the Lancashire Polytechnic Business School in Preston, England. There she took courses in European Business and Marketing.

At the Chamber, Ms. López had been of great help in the Commercial Department where her input has contributed to maintaining services to its members and public. She has assisted in the ambitious project currently being organized at the Chamber, "Spain-1992 and Beyond." Also, she has helped in the development of the Chamber's new inventory system.

Ms. López has worked for several years as an assistant buyer in the retail business owned by her family in Molina de Segura, Murcia.

Guillermo Amutio

Modesto Allepuz

Pedro Quintana

Lydia Bagaría completed a summer internship at the Chamber as an editorial and marketing assistant for *The Business Link* magazine. She also provided administrative support to the Chamber's activities and its membership relations efforts. Independently, she took international marketing courses at NYU.

Ms. Bagaria currently studies economics at the Colegio Universitario Abad Oliva, in Barcelona, Spain. She speaks four languages and has passed the Baccalaureate.

Inés Sentmenat completed a summer internship at the Chamber as an editorial and marketing assistant of *The Business Link* magazine. She also provided organizational and administrative support to the Chamber's Business Promotion Tour of U.S. and Canada, scheduled for fall 1991. Her experience with computers was used in reorganizing the new operations system of the magazine.

Ms. Sentmenat is a native of Barcelona and is studying international marketing at the Escuela Superior de Management Internacional (ESMAI) in Barcelona, Spain. During her stay in Manhattan, she took business administration courses at NYU.

Guillermo Amutio has recently located at the Chamber of Commerce as project manager for the Autonomous Community of Valencia. In May 1991 he completed a masters degree in Business Administration from Iowa State University where he majored in finance. During his second year he was awarded a research assistantship and conducted intensive research on stock market seasonality and portfolio window dressing activities. Prior to this, he worked in the finance department of several Spanish companies. In 1989, he graduated from University of Valencia, Spain, with a Bachelor of Arts degree majoring in economics. Mr. Amutio has lived in the USA for 3 years and he resides in Manhattan.

Modesto Allepuz is the area manager of the Regional Development Institute of Murcia (RDI) for trading and industrial promotion. He uses the Chamber as a logistical base to promote Murcia's main exports including foods, marble, shoes, furniture and leather garments. Mr. Allepuz promotes investment in Murcia by U.S. companies in such various sectors as plastics, chemicals, electronics and automobile manufacturing. He will also be able to capitalize on the recent $2.5 billion General Electric investment in the region of Murcia.

Mr. Allepuz holds a B.A. degree in Regional Development from Madrid's Autonoma University. He has taken various seminars in Business Administration. He joined RDI two years ago as a venture-capital manager.

Pedro Quintana is the representative of the PROEXCA, the Canary Islands Trade Promotional Office. He has a degree in law from La Laguna University and has been working in the Chamber's offices since spring 1991.

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[U.S. Business]

Acquiring Businesses and Joint Venture Interests in the U.S.

Methods of valuation are important factors for Spanish companies when they analyze the potential of compatible U.S. businesses for acquisition or joint venture projects

BY EDWARD E. SHEA

With growing frequency, Spanish companies are establishing businesses in the United States. Most organize a wholly-owned subsidiary which begins as a distributor and gradually expands to multiple sales offices, warehouses and then manufacturing facilities.

The process can be accelerated by acquiring a U.S. business or establishing a joint venture with a U.S. company whose business and people are compatible with those of the Spanish company. Many Spanish companies are now looking at these opportunities.

An important factor in any acquisition or joint venture is valuation of the business. In an acquisition, the Spanish company will usually acquire 100 percent of the U.S. business. In a joint venture, the Spanish company will acquire a percentage, such as 50 percent of the U.S. business, and may also contribute "going" business value to the acquired firm.

Valuation methods

This article describes the methods used to value businesses and business interests in the United States. Spanish companies can use them to plan and negotiate effectively with U.S. businessmen and their financial representatives. However, both businessmen and financial planners should remember that valuation studies are working tools and that negotiation is the final determinant of actual prices.

Both businessmen and financial planners should remember that valuation studies are working tools, and that negotiation is the final determinant of actual prices

The methods most commonly used to value U.S. businesses and business interests are as follows:

* Market value, if a company with publicly traded shares will be acquired.
* Comparable values determined by comparing the business being analyzed with businesses owned by companies with publicly traded shares or privately owned businesses for which recent sale information is available.
* Value based on current financial condition such as book value, net asset value, or replacement value.
* Value determined by capitalizing, or applying a multiple to, earnings for some historical period ranging from one to five fiscal years.
* Value determined by a weighted average of several methods, for example, market value (30 percent), book value (20 percent) and earnings multiple value (50 percent).
* Value determined by discounting projected future earnings and adding a residual value.
* Value determined by capitalizing or applying a multiple to projected future earnings or cash flow.
* Liquidation value determined on the assumption that the business cannot continue and will be sold by one of three methods: (1) a quick, forced sale of properties by auction or similar methods, (2) a slower negotiated sale of properties, or (3) a strategic negotiated sale of the business or units of the business designed to realize some elements

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of going business value. It is not necessary to choose a single valuation method. Financial analysts commonly include valuations by several methods in their reports.

Financial analysts should select the discount rate to reflect equity and risk, and also select a suitable volatility factor. Sensitivity analysis should be added to assist management judgements

Adjustments

All valuation methods are subject to adjustments. A premium will usually be applied for an acquisition of control, taking into account the percentage of equity ownership acquired and related arrangements for management of the business. A deduction may be applied for lack of liquidity. Adjustments for risk and the time value of money will be made if the price is payable over a period of time. Adjustments will be made if the price is paid in stock or securities. Important adjustments will be made to reflect the structure of an acquisition as a merger, stock acquisition or assets acquisition and the planned tax treatment as a taxable transaction or a tax- free reorganization.

Valuation Using GAAP

Valuation methods which depend on financial statements prepared in accordance with generally accepted accounting principles (GAAP) require considerable adjustment to take into account the choices (such as FIFO or LIFO inventory valuation) allowed by GAAP and the conservative policies used in developing GAAP. For example, as adopted in the United States, GAAP does not permit revaluation of property, so companies often have assets that are undervalued or have been entirely written off their balance sheets. Companies usually also have a variety of obligations (such as operating leases and supply contracts) and contingent liabilities that are not reflected in their balance sheets, although they should be described in footnotes to the financial statement. Examples of contingent liabilities that may not be fully reflected in financial statements are claims, lawsuits, guarantees, operating leases, supply contracts, employee and retiree benefits, and environmental, product and safety obligations and restrictions. Finally, existing financial statements for any business are necessarily historical and cannot be more than a starting point for valuation which should be future-oriented.

"Due Diligence" Review

While preparing a valuation report, it is customary to perform a "due diligence" review in order to identify nonfinancial statement values as well as obligations and liabilities that are not fully reflected in financial statements prepared according to GAAP. Some examples of nonfinancial statement values are a good public reputation, skilled and motivated employees, patents and other intellectual properties, well-designed products, leading market shares, limited competition, government permits with advantageous conditions, franchise or distributorship agreements, favorable sales or supply contracts, location near markets and raw materials, fully funded employee benefit plans, expense burdens that can be cut, and assets that can be sold without harm to the business.

Trend to Valuations Based on Cash Flows

During the last two decades, financial analysts have increasingly turned to valuation methods based on projections of future cash flows. One of the reasons is that these methods do not rely upon historical financial statements prepared in accordance with GAAP. Another reason is that they are compatible with the analysis used by lenders to evaluate acquisition loans which must, of course, be repaid from future cash flows.

In preparing discounted cash flow (DCF) valuations, the financial analyst must project cash flows carefully over a period of years for which meaningful estimates can be obtained. The analyst should include not only operating cash flows but also the effects on cash flows of planned changes in the business including capital spending, divestitures, debt amortization and refinancing, and tax effects. Because of the development of personal computers, future cash flow projections and the related valuation calculations can be performed rapidly and repeatedly using a variety of assumptions. The projections can also be adjusted as information is developed during the "due diligence" review.

The financial analyst should select the discount rate carefully to reflect equity and financial risk, and should also select a suitable volatility (beta) factor. The analyst should also calculate the residual value by discounting to perpetuity the cash flow for the final projected year or constructing a balance sheet as of the end of the period for which cash flows are projected. Sensitivity analysis should be added to assist management in making business judgements.

EDWARD E. SHEA *is a partner of Windels, Marx, Davies & Ives in New York City and an Adjunct Professor in the Finance Department of Pace University Graduate School of Business. Mr. Shea is also Editor of* The Acquisition Yearbook: 1991, *New York Institute of Finance (Simon & Schuster).*

Additional Information

Readers can learn more about valuation methods in the following books and articles: *Financial Valuation: Business and Business Interest*, James H. Zukin, Maxwell Macmillan/Rosenfeld Launer Publications, 1990; *Creating Shareholder Value*, Rappaport, Free Press/Macmillan 1987; *Determining the Purchase Price: Negotiation and Valuation Methods, Acquisitions, Mergers, Sales, Buyouts and Takeovers*, Fourth Ed., Chapter 4, Scarf, Shea and Beck, Prentice-Hall, 1991; Readers can learn about lender analysis of acquisition financing in "New Golden Rules of M&A Financing," Torchen, *Mergers & Acquisitions*, 1991 and "Business Value Lending in a Leverage Acquisition," Vernick, *Mergers & Acquisitions*, 1987.

Looming Antidumping & Countervailing Duties

Tariff erosion has created unforseen liabilities with the increasing potential to threaten U.S. importers

BY MICHAEL H. GREENBERG

For many, the U.S. antidumping ("AD") and countervailing duty ("CVD") laws are esoteric mysteries. However, those in the international trading community, particularly American businessmen importing from Spain and other trading partners of the U.S., can pay a high price for ignorance of these laws.

Traditional protection for U.S. business against import competition has come from regularly established, fixed rate tariffs. That protective tariff wall has eroded since the end of World War II under the onslaught of successive multilateral, international trade negotiations under the auspices of the General Agreement on Tariffs and Trade (GATT).

As tariff rates have fallen to levels which no longer provide significant protection, U.S. manufacturers in a variety of industries have turned more and more frequently to the AD and CVD laws as alternative means of protection. Principal among U.S. industries using the AD and CVD laws are steel, textiles and apparel, shoes, and electronics.

How the AD and CVD Laws Work

While the AD and CVD laws are substantively and procedurally complex, the underlying principles are relatively simple.

The antidumping law generally imposes additional customs duties when a foreign manufacturer sells to the U.S. at a price lower than it charges in its principal foreign market (its home market or another principal export market), and such sales at "less than fair value" injure a U.S. industry. If no foreign market value can be found, a "constructed value," which is essentially the direct cost of production with some statutory add-ons, is used. The amount of the additional duty is the difference between the U.S. price and the weighted average foreign ("fair value") price, adjusted to provide for comparability.

Principal among U.S. industries using the AD and CVD laws are steel, textiles and apparel, shoes, and electronics

The countervailing duty law seeks to neutralize subsidization of foreign manufacturers by their governments, where export subsidies or subsidization of particular industries (as distinguished from generally available government assistance) are involved. Again, injury to a U.S. industry from these subsidized sales must be found before countervailing duties may be imposed. The duties in principle equal the amount of the subsidy calculated on a per sale basis.

The administration of these laws is shared by two government agencies. The International Trade Administration ("ITA") of the U.S. Department of Commerce ("DOC") determines the issues of "dumped" sales and countervailable subsidies. The U.S. International Trade Commission ("ITC") deals with the question of injury. The domestic complainant must file its complaint simultaneously with these two agencies. The ITA has 20 days to decide whether the complaint meets the law's requirements. The ITC has 45 days to make a preliminary determination as to whether injury may eventuate from the allegedly dumped or subsidized sales.

If both of these determinations are affirmative, the DOC goes forward with its investigation and the ITA makes a preliminary determination as to dumped or subsidized sales. If that preliminary determination is affirmative, liquidation of entries of the merchandise is suspended and a deposit of estimated antidumping or countervailing duties as well as regular duties must be made on subsequent entries.

Thereafter, if the ITA makes a final affirmative determination of dumping or subsidization, the DOC refers the case back to the ITC for a final determination as to injury. If that determination is affirmative, the Secretary of Commerce issues an antidumping or countervailing duty order.

The timetables for the ITA's and the ITC's investigations are shown in the accompanying table. As the table indicates, the deadlines for the ITA's preliminary and final determinations depend in part on the complexity of the case before it.

Retroactive & Unforseen Liabilities

Why should a U.S. importer be concerned by the threat of an AD or CVD complaint if the only result of a determination unfavorable to the foreign manufacturer is an increase in the duty rate on subsequent imports? Once that higher rate is set, it can be factored into the price. If that higher duty raises the importer's price to an uncompetitive level, the result is the same as if a regular duty had been increased, or so it might seem. However, unfortunately for the U.S. importer, loss of future business is not the only concern. The hidden danger is the risk of the retroactive imposition of AD or CVD liability, the extent of which the importer cannot foresee at the time it imports the merchandise.

Timetable for Antidumping (AD) & Countervailing Duty (CVD) Cases

(Does not include expedited or extended cases)

Days	Stage
0	Petition filed with DOC and ITC
20	ITC Decision on Initiation
45	ITC Preliminary Injury Determination*
CVD 85 (Complicated 150) AD 160 (Complicated 210)	ITA Preliminary Determination/ Suspension of Liquidation
CVD 160/225 AD 235/285	ITA Final Determination
CVD 205/270 AD 280/330	ITC Final Injury Determination*
CVD 212/277 AD 287/337	DOC publication of order
One year later	Request for First Annual Administrative Review

* If negative, investigation is terminated.

There are two periods during which a retroactive liability can arise.

The first is the three month period immediately preceding a preliminary affirmative determination by the DOC of dumped or subsidized sales. When such preliminary affirmative determination is made, an order is issued to the U.S. Customs Service to suspend liquidations of future entries and to require the deposit of estimated AD or CVD duties. However, if the preliminary affirmative determination is accompanied by an ITA finding of "critical circumstances" — essentially massive dumped or subsidized imports under circumstances where the importer is deemed to have been aware of the situation—the DOC's suspension of liquidation order is made retroactive to entries of merchandise within 90 days prior to the preliminary determination.

Thus, importations entered even before any preliminary finding of dumping or impermissible subsidization has been made, may be subject to additional duties. The amount of these additional duties is not determinable at the time of the entry of merchandise, let alone at the time of the earlier sale to the U.S. businessman importing the merchandise. As a consequence, the U.S. importer may be subject to substantially higher import duties than anticipated, which cannot be reflected in his resale price. His profit may be wiped out or he may even face a substantial, unanticipated loss in the transaction.

As the accompanying table shows, a preliminary determination generally comes 160 days after the filing of an AD complaint, but only 85 days after the filing of a CVD complaint. Therefore, there is approximately a two month period following filing of an AD complaint during which merchandise may be imported without the danger of penalty duties. However, there is no such safe period after a CVD complaint has been filed. In either case, any entry whose liquidation has been suspended is subject to the possibility of an AD or CVD duty whose maximum level is set in the preliminary determination.

The second period in which the danger of a retroactively imposed liability exists is the period following the entry of a final AD or CVD order by the Secretary of Commerce. This post AD or CVD order period is by far the most dangerous to the U.S. importer. After the publication in the Federal Register of the final AD or CVD order, on each subsequent entry the U.S. importer must make a deposit of estimated AD or CVD duties equal to the rate fixed in the final ITA determination. However, unlike the pre-final order period, in the post-final order period the deposit does not fix the maximum liability.

After the issuance of a AD or CVD order, the DOC is required on each anniversary of the order to conduct an annual administrative review of that order, if requested to do so by any interested party, including the domestic complainant. If such an annual review should result in the finding of a higher dumping or subsidization rate than previously determined, not only future entries, but all past entries subject to the review, are assessed at this higher rate.

Protective Actions

In view of this threat of substantial, unforseeable AD or CVD liabilities to the U.S. importer once a complaint has been filed, what can a U.S. importer do to protect itself? Knowledge and preparedness are very important.

Probably most important for the U.S. importer is to have access to a competent and knowledgeable international trade counsel and to consult with that law firm early enough to avert or at least ameliorate the dangers of potential AD and CVD liabilities.

It is never too early for the U.S. business man importing from abroad to seek indemnity and reimbursement agreements from his foreign suppliers. The U.S. importer, who as the "importer of record" must bear the burden of any AD or CVD assessment, should ask his foreign supplier to warranty, and agree to indemnify, against such liabilities. There are no restrictions on such an agreement in the CVD situation. However, a warranty of nonapplicability of antidumping duties must have been given to the importer by the exporter prior to the initiation of an investigation and can only apply to purchases made prior to notice of suspension of liquidation and exported prior to the DOC's final determination. Thus, a substantial area of potential liability still exists for the U.S. importer.

The increasingly frequent use by U.S. manufacturers of the antidumping and countervailing duty laws against import competition has introduced new and significant risks into business relying on imported merchandise. The prudent U.S. businessman engaged in importing should be aware of these risks and how to avoid or ameliorate them. Ω

MICHAEL H. GREENBERG *is counsel to the law firm of Sharretts, Paley, Carter and Blauvelt, P.C., which specializes in international trade law.*

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Canary Islands: The Southern Border of Europe

Since fully entering the European Community in June 1991, the Islands offer U.S. companies many new commercial opportunities

BY PEDRO QUINTANA

The Canary Islands, known since ancient times as the Fortunate Islands, project an image of an ideal holiday resort to the international observer. This overshadows the islands' capabilities in international trade, as well as their attractiveness in the investment arena.

The archipelago's status is determined by three major points: the Canary Islands as an European region, its location off the coast of Africa, and the natural strategic location in the Atlantic Ocean. All these aspects are extremely important for the existence of these islands.

As of June, 1991, the situation of the Canary Islands within the EEC had changed. This was the result of a process started last December when the autonomous parliament approved a resolution to have full membership in the European Community.

Before the new regulations, the situation of the Islands in the Common Market was determined by the Protocol II of the Spain-EEC Treaty, which excluded the archipelago from some of the policies (commercial, agricultural, fishing and customs) that affected other regions within the Community. Due to these regulations, some sectors in the Canary Islands' economy were having problems in their traditional trade with other EEC countries.

The new regulations call for the Canary Archipelago to follow all the policies of the EEC with a transition period of ten years. So the Canary Islands have become the Southern Border of Europe with the same status in the EEC as any other Spanish region, while preserving the traditional commercial advantages that have existed in the islands throughout their history.

Due to the problems caused by their distance from the rest of the Common Market, the Commission approved a program called POSEICAN designed to solve the problems of isolation.

The second remarkable aspect is the strategic location of the Canary Islands. This archipelago enjoyed the advantage of its privileged location throughout its history. Some results of that policy are the Free Ports Regime and the special Tax System. From this point of view, the Canary Islands have been considered a meeting point between Europe, Africa and America. This location involves a role in international trade that has to be increased and developed in coming years. Thus, the Canary Islands' role in international trade cannot be missed by any American company desiring to do business with the African continent.

The other aspect that cannot be missed is the importance of the African market to the Canary Islands. Currently, the Canary Islands export 20 percent of their products to African developing countries. As a result, the International Fair of Canary Islands is held every year in Las Palmas de Gran Canaria. In 1990, companies from twenty countries joined that fair. Most of them were African, but there were also European and South American companies that participated. Currently, it is considered the most important fair in the area by the West African countries.

A few internal aspects have to be taken into account in order to complete the new international trade status picture of the Canary Islands. Among these, the most important are the tax system, the highly developed communications infrastructure and the consideration of the Canary Islands as an economic promotion area.

The tax system had to be reformed before the islands could become a full member of the Common Market, though the traditional tax system is based on the exemption of the value added tax (V.A.T.).

There is a highly developed communications infrastructure, with international airports and seaports. The Puerto de la Luz in Las Palmas de Gran Canaria is Spain's busiest port and the fifth largest of Europe in terms of traffic handled, which shows the importance of the archipelago in international trade.

In the investment arena, the Canary Islands have a privileged status. They have been declared an "area of economic promotion" by the Madrid Central Government, which means that Regional Incentives reaching up to 50 percent of the initial investment will be allocated to investment projects in the farming, food, industrial and tourism sectors. Also, the EEC offers loans to companies investing the area.

Considering all these circumstances, it is possible to conclude that the Canary Archipelago presents an interesting investment outlook for all those American companies that want to be in Europe and at the same time are interested in foreign trade with African countries. Ω

PEDRO QUINTANA *is Project Manager for PROEXCA, the Canary Islands international trade and investment promotion company.*

[Spain Survey]

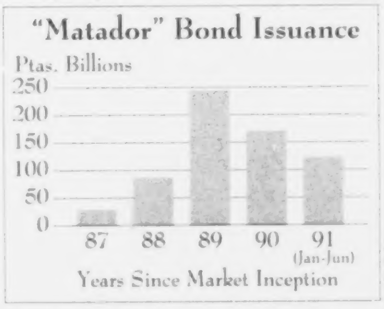
The Spanish Bond Market Continues to Liberalize

The Spanish Government has recently eased restrictions in the "Matador" domestic Eurobond market

BY JACK PRAUS

According to the Spanish Government, foreign public agencies who carry an explicit, 100 percent guarantee from their governments will soon be able to issue "Matador" bonds.

This act, released after the July 1991 meeting of the Intergovernmental Conference on Exterior Financing (CIFEX), will open the high-yielding "Matador" market to a number of new issuers. "Matador" bonds, or bonds denominated in Europesetas by non-Spanish entities, were previously issued only by either large supranational organizations with AAA solvency ratings, such as the World Bank and the European Investment Bank, or a sovereign nation.



Historically, Eurobond markets similar to the "Matador" market have generally been attractive to investors that require the lowest risk possible, the AAA solvency rating. But because of the strength of the peseta, the high yields of all Spanish bonds, and the fact that foreigners pay no Spanish tax on "Matador" bonds, the "Matador" market has been popular with a wider range of investors. Since its inception in 1987, the market has experienced continuous liberalization and tremendous growth. Recently though, this growth has slowed. Since December of last year, when the State announced its intention to return to foreign investors the 25 percent withholding tax on all Spanish Government bonds, the interest in "Matador" bonds has declined in favor of the Government debt. Investors who do not require a AAA rating will soon be able to enjoy higher yields and greater liquidity in the Government bond market while still avoiding the withholding tax. A bond trader at Banco Santander in Madrid commented that, "While there will always be demand for high grade 'Matador' peseta paper, many institutional investors have recently sold large blocks of 'Matadors' in order to take advantage of the greater liquidity of Spanish Government bonds."

Coinciding with this has been a temporary decrease in the yearly amount of new "Matador" bond issues (see graph). The volume of new bond issues reached over 245 billion pesetas in 1989, but has since leveled off. The result of these two factors has been to slow the growth of liquidity and size of the "Matador" market.

According to analysts at FG Inversiones Bursatiles in Madrid, the timing of this latest liberalization of the "Matador" market occurred, in part, as a result of this recent stagnation. The Spanish Government has steadily liberalized the market as part of the deregulation necessary to bring the Spanish bond market in line with other European markets. But this latest move has been interpreted by some as an announcement by the Spanish Government of its intention to revive the "Matador" market. As a part of this effort, the Spanish government made two additional announcements. The minimum length of time to maturity for "Matador" bonds will be reduced from 5 to 3 years, taking effect at the same time the opening of the market to government agencies. And in what was considered to be a major move, the Spanish Government has announced that it will open the "Matador" market to include large, multinational, private corporations as early as next summer.

The Spanish Government is likely to begin authorizing foreign government agencies to issue "Matador" bonds by September, and two or three of these agencies should be active this year. All of the public agencies which will be authorized to issue must be 100 percent owned by their state. All of the public agencies available to issue "Matadors" will carry the same solvency rating as their state, but in the beginning at least, only agencies from AAA rated countries will be authorized to issue peseta bonds.

All of the factors which have combined to make Spanish bonds so attractive are expected to remain positive. The outlook for the peseta is continued strength, and analysts believe that interest rates will remain high relative to the rest of the E.C. for some time. For the "Matador" market, this will mean renewed demand, and subsequently, continued, steady growth. Ω

JACK PRAUS *recently completed an internship in the international fixed income department of FG Inversiones Bursatiles, a leading independent broker on the Madrid stock exchange in Madrid.*

Spain at a Glance

Population:
39.3 million

Population Growth Rate:
0.3%

Area:
507,606 sq. Km. (including the Balearic and Canary Islands), about the size of Arizona and Utah combined

Religion:
Predominantly Roman Catholic

Government:
Constitutional Monarchy

Languages:
Spanish, Catalan, Galician, and Basque

Next Scheduled Election:
1993

Foreign Visitors (1990):
52 million

Exchange Rate (avg. 1990):
$1 = 101.9 pesetas

Unemployment (1990):
16.3%

Total Foreign Investment during 1990:
$18.0 billion

Total U.S. Direct Investment during 1990:
$438.8 million

Total EC Direct Investment during 1990:
$12.3 billion

GDP in market prices (1990):
$491.3 billion

GDP per capita (1990):
$12,502

Composition of GDP (1990):
Services 58.2%
Industry 27.3%
Construction 9.6%
Agriculture/Fishery 4.9%

Exports (1990):
$51.0 billion

Imports (1990):
$94.8 billion

Composition of Manufactured Imports (1990):
Raw Materials 7.0%
Semi-manufactured goods 25.3%
Capital goods 37.9%
Automotive goods 13.8%
Consumer goods 15.7%

Natural Resources:
Coal, lignite, iron ore, uranium, mercury, pyrites, flourspar, gypsum, zinc, lead, tungsten, copper, kaolin, hydroelectric power

Agricultural Products:
Grains, vegetables, citrus and deciduous fruits, wine, olives, olive oil, sunflowers, and livestock

Primary Industries:
Processed foods, textiles, footwear, petrochemicals, steel, automobiles, consumer goods, and electronics

Best U.S. Export Prospects:
Franchising, pollution control equipment, medical equipment, scientific equipment, coal, telecommunications, computers, construction equipment, tourism services, aircraft and parts, and building products

SOURCE: *Business America, August 26, 1991*

SPAIN
AS A BUSINESS PARTNER:
1992 and Beyond

A SPECIAL REPORT PRESENTED BY

The Spain-USA Chamber of Commerce
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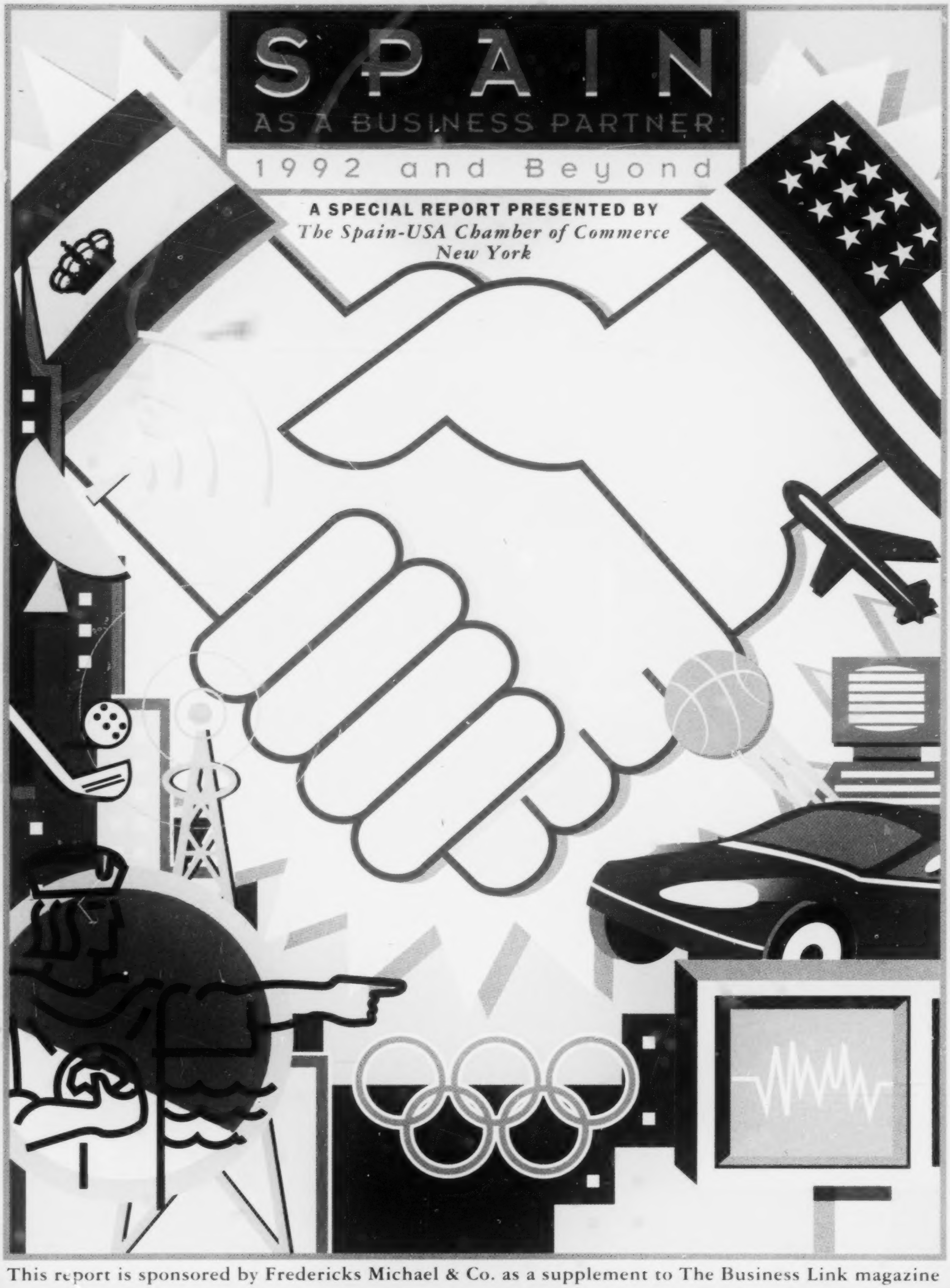

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Spain as a Business Partner

SPECIAL REPORT

October 1, 1991
Madrid

Dear friends:

I would like to invite the leaders of medium-sized and large North American companies, including the participant companies in the promotion tour "Spain 1992 and Beyond", to develop and expand their relations with our country.

Since joining the European Community in 1986, Spain has sustained the highest economic growth rate in Europe for four consecutive years, in large part, by attracting unprecedented amounts of trade and foreign investment from the United States. Spain's new dynamism, coupled with the momentum generated by the Barcelona Olympic Games and Seville's Expo' 92, has resulted in mobilizing domestic and international resources toward the modernization of our infrastructure. Entering into such joint venture arrangements as licensing agreements, sales agents, distributorships and technology transfers is the best way to take advantage of our excess growth capacity relative to the northern tier countries of Europe.

Now more than ever, Spain is poised to compete more effectively in the international marketplace and offer companies an excellent platform for doing business with Europe. We encourage you to look to Spain not only as the fifth largest consumer market in Europe and the most popular tourist destination in the European Community, but also as a long-term business partner.

Very truly yours,

Claudio Aranzadi
Minister of Industry, Trade and Tourism

[Spain as a Business Partner]

SPECIAL REPORT

EMBASSY OF THE
UNITED STATES OF AMERICA
MADRID

THE AMBASSADOR

October 1991

To the Readers of Business Link:

Commercial opportunities abound in today's Spain. This is clearly an ideal time to initiate new ventures and reinforce existing business relations. Thus it gives me great satisfaction to know that the Spain-U.S.A. Chamber of Commerce has taken the initiative for the second consecutive year to assist American business leaders do business in Spain through a series of informative seminars. Attendance at one of these seminars will be an excellent opportunity for companies to learn how best to take advantage of Spain's economic "Golden Age".

In the two years I have served as U.S. Ambassador to Spain, I have seen remaining barriers to bilateral trade virtually disappear. Bilateral trade is projected to exceed $12 billion in 1991. Our Bilateral Double Taxation Agreement makes doing business in Spain even more attractive than in the past. Spain today is without a doubt a very attractive and profitable market for U.S. exporters.

Spain will enjoy the international spotlight in 1992: the World's Fair in Sevilla; the Summer Olympics in Barcelona; the Quincentennial Celebration of the Discovery of the Americas, and Madrid's designation as the Cultural Capital of Europe. All these 1992 events will produce a ripple effect on the economy of Spain that should benefit Spanish and foreign firms operating here.

Once you decide on doing business in Spain, in addition to the Spain-U.S.A. Chamber of Commerce, the U.S. and Foreign Commercial Service (US&FCS) with offices in Madrid and Barcelona stands ready to serve you. In recent years the US&FCS has organized highly successful trade missions and trade fairs as well as assistance to individual business visitors.

Recent themes have included franchising, sports apparel and equipment, computers, tourism, construction equipment, security products, pleasure boats, and many more.

Support for your activities is one of my highest priorities. I wish you success and I encourage you to make Spain your next business objective.

Sincerely,

Joseph Zappala

Joseph Zappala
Ambassador of the United
States to Spain

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SPECIAL REPORT

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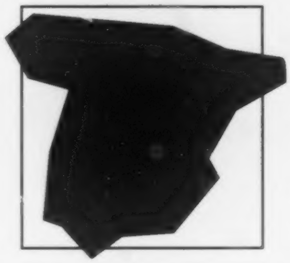

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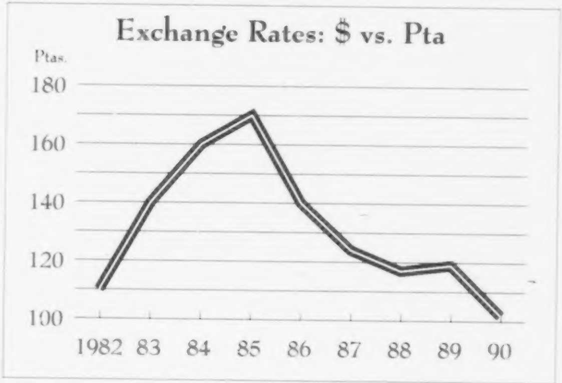
The Spanish Economy: Cooling Down for Smooth Sailing

As Spain's GDP growth rate slows and interest rates decrease, bringing inflation to EC levels is an economic priority

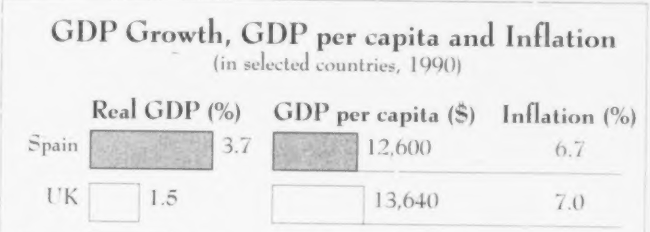
SPECIAL REPORT

Impressive growth statistics over the past few years cannot adequately communicate the sweeping transformation unleashed in the Spanish economy. Nor do the figures accurately convey the dynamic changes taking place in traditional commercial relations, business management, practice and outlook. Spanish businesses are making major decisions on how to position themselves for the European Single Market. For many this has meant significant capital expenditure programs to acquire equipment and technologies to improve efficiency.



As part of its entry into the EC in 1986, Spain negotiated a seven year transition period to implement existing Community regulations and external tariff rates. This period, which began on January 1, 1986, will terminate on December 31, 1992. In almost all cases, the newly implemented EC regulations represent a significant liberalization over previous Spanish requirements. A major event in 1989 was the Spanish peseta's entry in the European Monetary System. Linking the peseta with the major European currencies has kept the peseta relatively strong vis-a-vis the dollar during the first half 1990. This further adds to the attractiveness of American products in the Spanish marketplace.

The Spanish Government's major economic policy concerns are the overheating of the economy, a large and growing trade deficit, higher imported fuel costs, and employment creation. Concern that a worsening of these developments could cut short the economic expansion led the government to implement measures aimed at cooling the economy. These measures, which have been criticized for their excessive reliance on tight money and restrictions on credit expansion, began to impact on growth by the end of 1989. A more conservative fiscal stance in 1990 will complement monetary restraint. Near term prospects for sus-



tained growth remain good, however, with official projections averaging 3.1 percent in real terms for the next several years.

The high interest rate policy of the Bank of Spain kept the peseta near the top of the band in the Exchange Rate Mechanism (ERM) of the European Monetary System. The most immediate effect was on the trade deficit, which widened to $29.5 billion in 1990. The strong peseta also contributed to a four percent drop in tourist entries for the year. At the same time, high interest rates also helped attract $20 billion in foreign capital. The capital flows more than covered the current account deficit, and thus foreign exchange reserve holdings increased $8.7 billion during the year.

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Segovia
Madrid
Toledo
Valencia
Palma de Mallorca
Alicante
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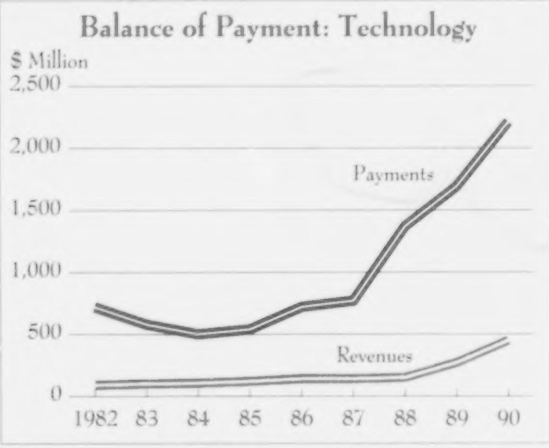
Sevilla
Granada
Almeria
Málaga
SPAIN
Santa Cruz de Tenerife
Las Palmas

In 1991, the economy should grow about 2.5 percent, with most of the growth coming from the service sector. The budget deficit is projected to fall, resulting in inflation of around 6 percent. Unemployment should stay at about 16 percent.



The Spanish economy is expected to average 2.5 percent growth during 1991. Large investment projects by foreign investors and the government public works program will give a major push to the construction and manufacturing sectors, and real wage hikes will increase consumer purchasing.

Inflation will probably average around six percent, despite declines in energy prices. The increase in the public sector deficit in the fourth quarter 1990 will be felt in 1991 consumer prices. If the government's budget projections hold, a lower fiscal deficit should reduce inflationary pressures in the latter part of 1991. The government has indicated it plans to move away from the high-interest rate monetary policy. In March, the Bank of Spain cut the official interest rate from 14.5 percent. Since the peseta remains at the top of the ERM band, further cuts may become necessary as other countries (particularly France and the U.K.) reduce interest rates to spur their economies.

Employment growth will likely be slower in 1991, and thus unemployment may rise. The government remains concerned about wage hikes that have exceeded inflation and productivity gains. It has set a goal of limiting average negotiated wage increases to 5.8 percent, and this jaw-boning effort is a major part of the government anti-inflation strategy.

Both the trade and current account deficits should increase in 1991, reflecting the strength of the peseta. Foreign investment should remain strong, as companies position themselves for the 1992 European Single Market. Other capital inflows may slow if interest rates drop significantly.

The near term challenge will be to bring down inflation levels to match those of other European countries. With the exchange rate essentially fixed in the ERM, above-average inflation implies decreasing competitiveness. To date, most anti-inflation efforts have been concentrated in interest rate policy. In order to maintain Spanish competitiveness, the government is making a strong deficit reduction effort. Ω

This article was prepared by the U.S. Department of Commerce with collaboration by the Commercial Office of Spain in New York City.

Spain: Business and Tax Incentives for U.S. Investors

Since democracy has arrived in the Spanish political system and the country has entered the EEC, Spain has evolved rapidly in economic development. Consequently, the higher growth rate has produced a spectacular increase of the per capita gross domestic product and, consistently, a similar evolution of its citizens' purchasing power. Spain currently offers several sectors (industrial, commercial and service) with great potential for business profits.

SPECIAL REPORT

BY RAFAEL COLLANTES DE ALBA

The Spanish government and local authorities are now trying to promote investments in certain areas by giving subventions and other incentives which are available to foreign investors.

Incentives for investment are granted not only by the government, but by the Autonomous Communities (i.e. regional governments), local authorities and even by the EEC, because, since January 1, 1986, Spain has been entitled to avail itself of the various EEC aid programs.

To encourage investment in Spain by U.S. and other investors, the following have been implemented:

- A progressive liberalization of the requirements for foreign investments in Spain, especially in exchange control matters.
- The opening of the banking system to foreign banks has resulted in an increase of credit facilities and access for foreign investors to local financing opportunities with the same conditions as for Spanish investors. Additionally, it is possible for certain enterprises to make an agreement with the government to obtain priority in the granting of official credit by public sector banks.
- The State Budget Laws annually offer tax incentives which encourage employment, investment and the development of new technology.
- Non-tax incentives, like subventions or reduction of Social Security contributions, are available to foreign investors.

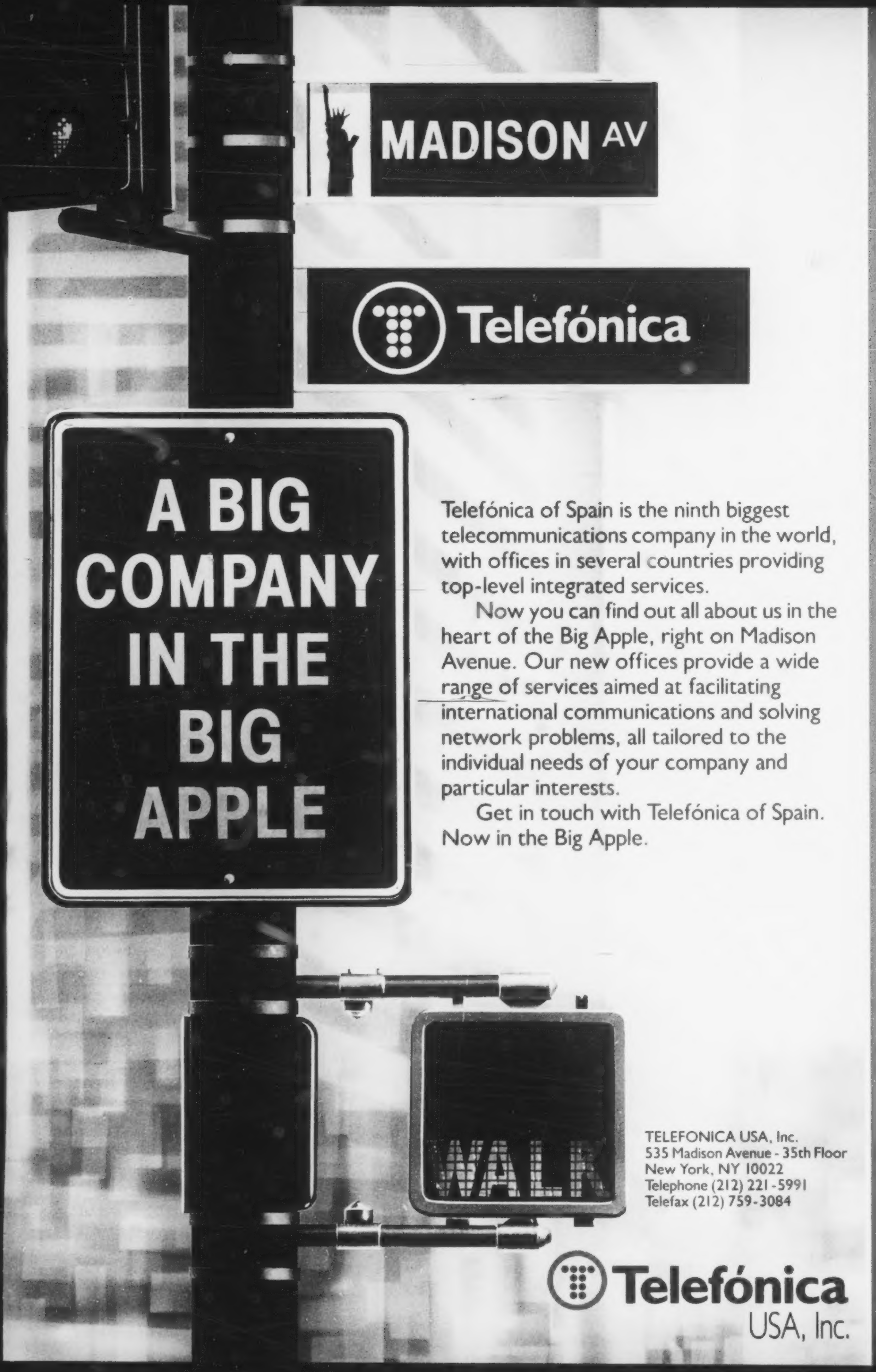
This article does not intend to make an extensive study of the incentives for foreign investment in Spain, rather, it is simply a summary guide of the opportunities, requirements and conditions which these investments involve.

Subsidies

Investment in promotional areas or activity sectors allow the obtaining of different grants. In general terms, these economic aids consist of the following types of incentives:

- Non-returnable subsidy of approved investments.
- Subsidy of the interest on loans obtained from financial entities.
- Subsidies for the amortization of the loans obtained.
- Reduction of up to 50 percent of a company's Social Security contribution for normal contingencies for jobs approved and created by a project during a maximum period, normally two years.

Law 50/1987 of December 27, 1987 on regional incentives classified the Spanish territory into different areas (zonas de promocion economica, zonas industrializadas en declive, zonas especiales). The incentives granted by the Central Authorities encourage invest-



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ment in areas which have not benefitted from industrial expansion or those which are experiencing economic difficulties.

There are also a variety of incentives for specific services or industrial sectors such as mining, fishing, electronics, energy, naval, nutrition, data processing, pharmaceuticals and agriculture.

In addition, each Autonomous Community offers other types of incentives for investments located in their respective regions: the EEC programs operating through the European Social Fund and the Fund for Regional Development (FEDER) promoting the development and structural adjustment of the less developed regions. There are grant incentives consisting of subsidies for investment, infrastructure, financing of technology transfers and enterprise support systems.

Labor Cost Reductions

The promotion of employment is carried out in two ways: a) Tax incentives for job creation. The regulation of Corporate Tax provides a 500,000 pesetas tax credit for each person/year of average increase in the workforce with a full-time contract of indefinite duration. In the case of handicapped employees, the tax credit would be an amount equivalent to 700,000 pesetas, under the same conditions. b) Non-tax credit. Certain types of contracts (e.g. practical training contracts) allow a reduction of about 75 percent in the company's Social Security contributions for normal contingencies under the condition that the companies have their Social Security obligations up to date.

Exchange Control Requirements

In general, direct investments (e.g. creation of new companies or participation in Spanish share capital companies above 20 percent) for an amount under 25 million Pesetas do not need prior administrative verification. Other investments in shares or participation in the share capital are, in general, liberalized. Loans with a duration of over five years, granted by nonresidents, with the aim of establishing or maintaining economical lasting relations, do need prior administrative clearance.

Loans under 1.5 million pesetas and a duration of at least three years do not need the authorization of the Bank of Spain.

The Spanish fiscal regulations provide many tax credits and incentives. Tax concessions can be divided into the following groups:

99 percent allowance of interest obtained by certain entities from loans granted to finance investments in Spain.

Investments made on new fixed assets.

Creation of employment.

Research and development and promoting new technologies.

Tax benefits on mergers, spin-offs, joint ventures and certain regional industrial development operations.

Investment in publishing and exporting activities.

It is important to bear in mind that interest rates paid in Spain for loans or securities, in Pesetas, are comparatively higher than the average European interest rates.

Tax Facilities and Exemptions

Corporate Income Tax provides several incentives for investment in Spain. These include advantageous deductions from the taxable base that could be applied as expenses due to Special Depreciation Plans, accelerated depreciation for certain fixed assets and free choice of depreciation methods for equipment, expenses and buildings used for research and development.

Also, losses from commercial or industrial activities of new or existing companies can be offset in the following five years against profit in the company income tax.

Finally, capital gains and interest obtained by individuals or entities resident in an EEC country other than Spain are, since 1991, not subject to tax in Spain under certain conditions. Interest and capital gains derived from the Spanish public debt are exempt from Spanish tax if obtained by nonresidents in Spain, whether individuals or entities, not operating in Spain through a permanent establishment. Profits, royalties, dividends and interest will not be subject to tax, or will have a reduced rate of tax, in Spain if a tax treaty for avoiding double taxation is in effect. Spain has such a tax treaty with the U.S.

Some regions have special tax treatment such as the Canary Islands, Ceuta and Melilla. This affects import duties, indirect taxes and direct taxes (a 50 percent reduction of its fiscal cost). Also, local authorities can grant tax credits on local taxes, such as those on business licenses.

Regarding nonresident investors, if their investment cannot be considered a permanent establishment, the applicable tax rate (if there is no treaty in effect) is 25 percent of the gross income, lower than the tax rate applicable to Spanish residents, or 35 percent for capital gains on the net amount. Additionally, there are special reduced tax rates of 4 percent for certain entities or activities, such as reassurance operations. Ω

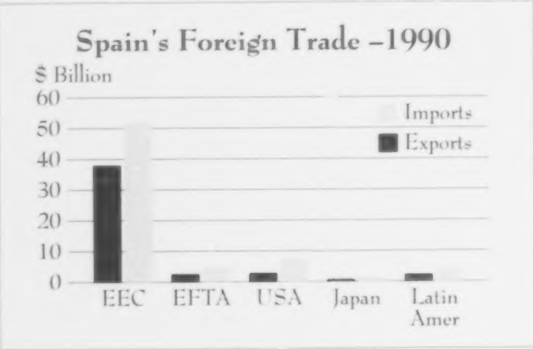
MR. COLLANTES *is the tax partner responsible for financial services with Price Waterhouse in Madrid. He is a lawyer and "Censor Jurado de Cuentas" i.e. a CPA.*

The Ten Best Spanish Markets

A Comprehensive U.S. Department of Commerce Listing of U.S. Export Prospects in Spain

Franchising

Est. total sales, 1990: $300 million.
Est. avg. ann. growth rate/total sales, 90-2: 50 percent.
Est. total sales/foreign-owned firms, 1990: $270 million.
Est. avg. ann. growth rate/sales of foreign owned firms: 50 percent.
Est. sales/U.S.-owned firms, 1990: $200 million.
Est. avg. ann. growth rate/sales of U.S. owned firms: 50 percent.
Receptivity score to U.S. products/services: 5. (On a scale of 1 to 5).
Comments: Franchising is hot. Spanish entrepreneurs seek proven business systems and, if possible, "name" brands. There is no shortage of local capital.
Promising subsectors: Fast foods [$175 million]; business services [$25 million], and automotive [$15 million].


Spain's Foreign Trade -1990

Pollution Control Equipment

Est. market size, 1990: $262 million.
Est. avg. ann. growth rate of market, 1990-2: 40 percent.
Est. total imports, 1990: $240 million.
Est. avg. ann. growth rate/total imports: 45 percent.
Est. imports from U.S., 1990: $42 million.
Est. avg. ann. growth rate/imports from U.S.: 40 percent.
Receptivity score to U.S. products/services: 5.
Comments: Explosive demand as Spain works to comply with current EC environmental standards. Local presence improves competitive position.
Promising subsectors: Filters [$50 million], industrial incinerators [$75 million], and electrostatic precipitators [$10 million].

Medical Equipment

Est. market size, 1990: $930 million.
Est. avg. ann. growth rate of market, 90-2: 30 percent.
Est. total imports, 1990: $800 million.
Est. avg. ann. growth rate/total imports: 30 percent.
Est. import from U.S., 1990: $195 million.
Est. avg. ann. growth rate/imports from U.S.: 35 percent.
Receptivity score to U.S. products/services: 5.
Comments: Investment in the public and private health care sectors is strong, but still behind its European neighbors. Expansion of private insurance coverage contributing to overall demand increase.
Promising subsectors: Electro-medical [$200 million], electrocardiographs [$75 million], and prosthetic equipment [$20 million].

Laboratory and Scientific Equipment

Est. market size, 1990: $650 million
Est. avg. ann. growth rate, 90-2: 20 percent.
Est. total imports, 1990: $575 million.
Est. avg. ann. growth rate/total imports: 20 percent.
Est. imports from U.S., 1990: $150 million.
Est. avg. ann. growth rate from U.S.: 25 percent.
Receptivity score to U.S. products/services: 5.
Comments: Government increases funding for research and development in public and private sectors.
Promising subsectors: Chromatographic [$75 million], spectrophotometric [$50 million], and electrochemical [$50 million] instruments.

Telecommunications Equipment

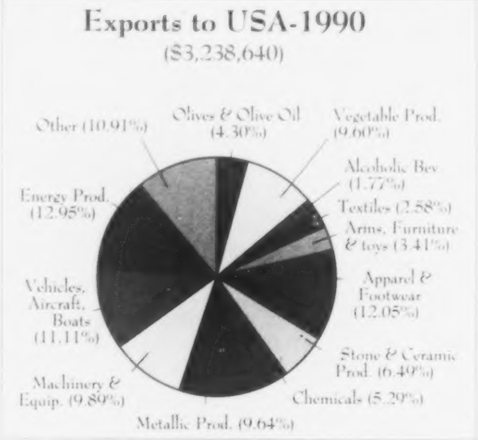
Est. market size, 1990: $4.1 billion.
Est. avg. growth rate of market, 1990-2: 30 percent.
Est. total imports, 1990: $1.3 billion.
Est. avg. ann. growth rate/total imports: 35 percent.
Est. imports from U.S., 1990: $80 million.
Est. avg. ann. growth rate/total imports from U.S.: 40 percent.
Receptivity score to U.S. products/services: 3.
Comments: Growth in the Spanish telecommunications market has been explosive in recent years. The Spanish PTT, Telefonica, has been investing in new equipment and lines to meet demand and to modernize. The Spanish market has become one of the most open of the major European countries.
Promising subsectors: Mobile communications [$200 million], digital switching [$400 million], automated call distributors [$100 million], multiplexers [$50 million], outside plant equipment [$75 million].

SPECIAL REPORT

[Spain as a Business Partner]

Coal

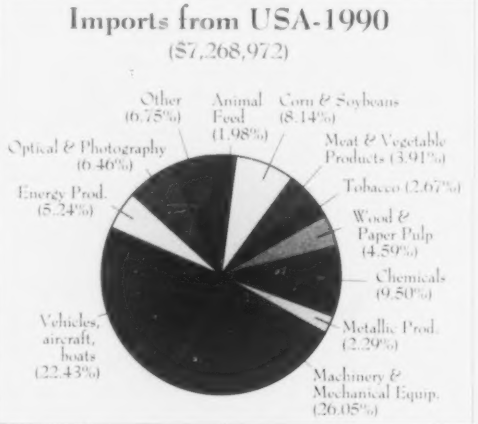
Est. market size, 1990: 48.5 million metric tons.
Est. avg. ann. growth rate of market, 90-2: 4 percent.
Est. of total imports, 1990: 11.5 million metric tons.
Est. avg. ann. growth rate/total imports: 6 percent.
Est. imports from U.S., 1990: $185 million.
Est. avg. ann. growth rate/imports from U.S.: 10 percent.
Receptivity score to U.S. products/services: 4.
Comments: Imports for power generation will continue to expand as production is subsidized, inefficient local mines are reduced and political considerations limit growth of nuclear power. Coking coal represents over 90 percent of U.S. exports to Spain. The major competition for the steam coal market comes from South African suppliers.
Promising subsectors: Steam coal [$700 million], coking coal [$250 million].


Exports to USA-1990
($3,238,640)

SPECIAL REPORT

Computer and Peripherals

Est. market size, 1990: $2.4 billion.
Est. avg. ann. growth rate of market, 1990-2: 10 percent.
Est. total imports, 1990: $2 billion.
Est. avg. ann. growth rate/imports: 10 percent.
Est. imports of U.S., 1990: $420 million.
Est avg. ann. growth rate/imports from U.S.: 10 percent.
Receptivity score to U.S. products/services: 5.
Comments: The global downturn in this sector is finally reaching Spain. Market growth in 1990 was only 9 percent, after years of 20-plus percent expansion. However, most industry sources believe local market far from saturation. Strong demand from public and financial sectors will contribute to this growth.
Promising subsectors: Laser printers [$200 million], optical readers/scanners [$50 million], modems [40 million], and lap-top computers [$300 million].


Imports from USA-1990
($7,268,972)

Construction Equipment

Est. market size, 1990: $3 billion.
Est. avg. ann. growth rate of market, 1990-2: 10 percent.
Est. total imports, 1990: $900 million.
Est. avg. ann. growth rate of total imports: 15 percent.
Est. imports from U.S., 1990: $85 million.
Est. avg. ann. growth rate/imports from U.S.: 20 percent.
Receptivity score to U.S. products/services: 4.
Comments: The total Spanish construction sector represents over $30 billion per year. Major government infrastructure spending will maintain one of the highest construction growth rates in Europe.
Promising subsectors: Tracklaying tractors [$16 million], shovel loaders [$12 million], off-highway dump trucks [$8 million], motor graders and levelers [$8 million].

Travel and Tourism

Est. total of sales, 1990: $40 billion.
Est. avg. ann. growth rate of sales, 1990-2: 5 percent.
Est. sales of foreign-owned firms, 1990: $1 billion.
Est. avg. ann. growth rate/sales of foreign-owned firms: 5 percent.
Est. sales of U.S.-owned firms, 1990: $1 billion.
Est. avg. ann. growth rate/sales of U.S. owned firms: 6 percent.
Receptivity score to U.S. products/services: 5.
Comments: Sector represents 9 percent of Spanish GNP. Demand is split between residents and foreign visitors. Per Capita expenditure and length of stay in U.S. are way above average.
Promising subsectors: U.S. destinations [$100 million].

Building Products

Est. market size, 1990: $52 billion.
Est avg. growth rate of market, 1990-2: 10 percent.
Est. total imports, 1990: $6.2 billion.
Est. avg. ann. growth rate of total imports: 20 percent.
Est. imports from U.S., 1990: $525 million
Est. avg. ann. growth rate/imports from U.S.: 25 percent
Receptivity score to U.S. products/services: 4.
Comments: Government infrastructure spending for the 1992 Summer Olympics and a World's Fair will generate growth. Lumber and wood products dominate U.S. exports. Interest rate reduction should increase number of residential and commercial unit starts.
Promising subsectors: Lumber/wood products [$100 million], wood particleboard [$3 million], and float glass [$3 million].

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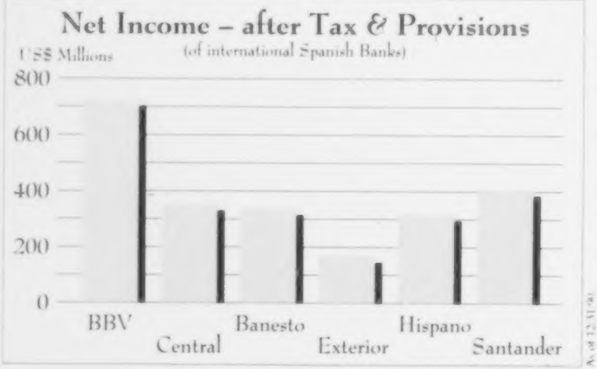
BBV Celebrates Third Anniversary

Three years after the unprecedented merger of Banco de Bilbao and Banco de Vizcaya, BBV takes its place in the global financial market

BY RAYMOND E. C. SURGUY

SPECIAL REPORT

On October 1, 1991, Banco Bilbao Vizcaya completed its first three years of operation since its formation resulting from the merger of Banco de Bilbao and Banco de Vizcaya. This merger in 1988 formed Spain's largest financial group at the time, with total assets equivalent to $65 billion, placing it as the 36th largest bank in Europe and 69th in the world. In the quest to develop a world-class Spanish banking institution and to recognize the role that Spain would come to play in the European Economic Community, the foresight of the respective predecessor bank Chairmen, José Angel Sánchez Asiáin of Banco de Bilbao and Pedro Toledo of Banco de Vizcaya, was indeed timely. Today BBV is a world-class institution which is among the leaders in terms of financial strength and profitability. In fact, just recently, the financial magazine *Euromoney* classified BBV as one of the ten best banks worldwide.

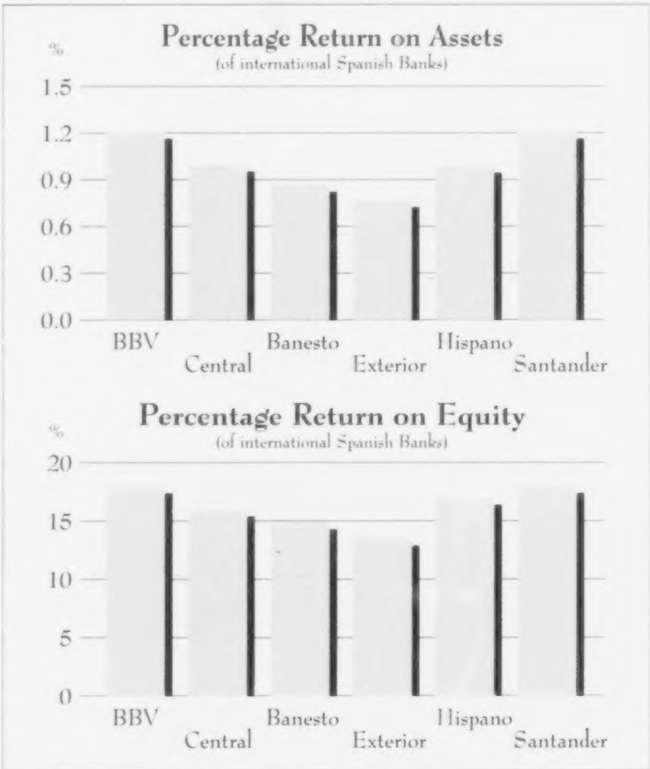


No merger is without its trauma and every organization which has been part of the process has its own story to tell. BBV is no exception. Despite the enormous efforts to communicate with personnel and outline the long-term objectives of the new banking group, unforeseen obstacles appeared during many phases of the process.

From the beginning, the concept of a friendly merger of equals was the path that both banks and their personnel were to follow. After all, they were banks with a common Basque heritage and were both located in Bilbao; Banco de Bilbao having been founded in 1856, and Banco de Vizcaya in 1902. Many of the directors and personnel had family ties, and ostensibly all the ingredients existed to make this an ideal combination. Such was the spirit of cooperation, from the outset, towards meeting the merger objectives, that both Chairmen of the respective predecessor banks agreed to assume joint Chairmanship of BBV during the first four years of the merger. José Angel Sánchez Asiáin was to be the "primus inter pares" for the first two years, with the roles reversing, and Pedro Toledo assuming this position in the ensuing two years. The path to a model merger was clearly established. But, just fifteen months into the merger, BBV encountered a major obstacle: the untimely death of Pedro Toledo, in December, 1989. In order to overcome the impact of this tragic occurrence and not to lose the momentum that the merger had generated, Emilio de Ybarra was appointed Chairman. A seasoned banker, de Ybarra had the experience and ability to continue to unite the two organizations. Together with Alfredo Sáenz as the First Deputy Chairman and José Javier Gúrpide as the Second Deputy Chairman, the team was eminently suited to lead BBV into the fulfillment of the Sánchez Asiáin and Toledo vision for a major world-class Spanish financial group.

It has been three long years for BBV. As in any merger process, especially one of such magnitude, disruption is a necessary part of the process. BBV was challenged by the need to integrate a total of 32,900 employees, 3,216 offices, as well as data-processing systems, cultures, policies, while simultaneously achieving the consolidations necessary to the economies of scale as envisaged. Dedication and cooperation of personnel throughout the organization was essential. In the continuous process of restructuring, relocation and reevaluation, BBV has had to fine tune its progress whilst on the move, since in Spain there was no precedent for a bank merger of this size.

In the 1990's, large mergers seem to be common place. In many countries, especially in the U.S., megamergers are no longer looked upon in awe. In fact, those of Bank of America with Security Pacific to form a combined banking institution of $195 billion in total assets, and Chemical Bank with Manufacturers Hanover for a total of $135 billion, are expected to be completed shortly and nobody shows any surprise. But in 1988, the only other bank merger of comparable size was that of the Bank of New York and Irving Bank Corporation in New York, also the largest in the U. S. at the time, and one which was to create a bank with consolidated assets of $45 billion. Since that time, BBV has grown from the equivalent of $65 billion to $87 billion in total assets; BBV group profits after taxes and provisions have increased from $530 million to $730 million.


Percentage Return on Assets
(of international Spanish Banks)

Percentage Return on Equity
(of international Spanish Banks)

Unlike many mergers where the first measure to be taken is that of large personnel reduction, BBV has expanded its business, absorbing much of the excess of personnel generally created by mergers. This policy, which is clearly more suited for the Spanish labor market, has meant that personnel numbers have only declined by 2,900 or 8.8 percent to the present 30,000 level since the merger began. By American standards this may appear to be small, in comparison, for example, with the savings achieved by Bank of New York (its merger reduced the number of employees from 20,000 to the present 12,600). Other sizeable personnel reductions envisaged in the forthcoming Bank of America with Security Pacific, and Chemical Bank with Manufacturers Hanover mergers, are additional examples of how large American consolidations differ from that of BBV in Spain.

Meanwhile, in Spain, the announced merger of Banco Hispano Americano with Banco Central is expected to take place shortly, creating an organization with assets equivalent to $91 billion. As if this was not enough, the subsequent formation of the Corporation Bancaria Española, an entity for holding all of the Spanish Government's financial affiliates, makes another group with total assets of some $96 billion. All of these events which have taken place during 1991, represent a continuation of the consolidation process to which BBV was in the forefront.

Now that the BBV merger process has been successfully completed, the Group is poised to take commercial advantage of its matured and consolidated base. While its position as the largest Spanish bank has been somewhat eclipsed by the creation of the Corporation Bancaria Espanola and the expected formation of Banco Central Hispanoamericano, BBV is three years ahead of the pack, this is undoubtedly an advantage when considering the rapidly changing environment creating even greater pressures for mergers and the disruptive period that accompanies them.

It is no small feat that during this whole process BBV's performance has consistently been amongst the best in the world. This achievement during the merger clearly establishes the value of the BBV franchise for future growth, expansion and profitability. With the globalization of the financial markets, BBV's global participation with the major players will enable it to maintain its prominent position, with service to both the domestic and the international customer, a major priority in striving to achieve enhancement of shareholder value. Ω

RAYMOND E. C. SURGUY *is Assistant General Manager of Banco Bilbao Vizcaya, S.A.*

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Doing Business in Spain

Foreign Investment laws in Spain continue to be liberalized

BY JOSÉ W. FERNÁNDEZ & MARCEL J. MOLINS

SPECIAL REPORT

Foreign investments in Spain are governed by Royal Decree 1265/86 of 1986, as amended, and its implementing regulations (collectively referred to as the "Foreign Investment Law"). Under this legislation, a foreign investment may require prior governmental approval or verification and must be registered with the foreign investment authorities. A foreign investor may make a "foreign investment" in Spain by means of a contribution in foreign currency, capital equipment, industrial property rights, know-how or technical assistance.

Approval/Verification and Registration.

Under the Foreign Investment Law, a foreign investor does not need to obtain prior governmental approval or verification before investing in a Spanish company in which foreign equity participation after the investment will not exceed 50 percent. The Law further provides that no prior approval or verification is required to invest in a Spanish company if the foreign investment amount does not exceed 25 million pesetas (approximately U.S. $240,000), irrespective of the resulting foreign equity participation in the Spanish company.

Subject to this exception, a foreign investor must obtain prior governmental verification to invest in a Spanish company if, as a result of the foreign investment, the foreign equity participation will exceed 50 percent. The verification procedure is a straightforward notification procedure in which verification is automatically granted if the Spanish foreign investment authorities do not respond within 30 days after the date of filing. Prior governmental approval is required only for investments made in any of the restricted sectors: gambling, national defense, television and radio, and air transportation.

Forms of Business Organization

Spanish law contemplates various forms of business organization: branches, general and limited partnerships, limited liability companies and corporations. Foreign corporate investors usually organize their local activities through either a branch (sucursal) or a corporation (sociedad anonima or "S.A.").

Foreign investors commonly organize a Spanish branch when their local activities will be limited to marketing products or providing support services. Although branches are treated as independent taxpayers for Spanish tax purposes, they do not constitute a separate entity for other legal purposes (e.g., limited liability). Moreover, branches have traditionally been perceived as vehicles for carrying out specific projects in Spain; therefore, they were thought to be inappropriate where local market commitment is commercially important. However, this perception is changing with the advent of Europe 1992. Moreover, numerous foreign investors now operate in Spain through branches to take advantage of its preferential tax treatment.

Incorporation

The incorporation of a Spanish corporation requires a notarized public deed and its registration in the Commercial Registry. The minimum number of founding shareholders is three. There is a registration tax equal to 1% of the par value of the subscribed shares.

Capital

The new Business Companies Law provides that a Spanish corporation must have capital of at least 10,000,000 pesetas (approximately U.S. $105,000). Upon incorporation, the shares must be completely subscribed and paid in an amount not less than 25 percent of their par value. All outstanding non-cash contributions must be paid within five years.

Management Structure

The management of a Spanish corporation may be vested in one, two or more managers. Whenever the management of a corporation is entrusted to two or more managers jointly, they must act as a board of directors. A director may remain in office for a maximum of five years and may be reelected for a maximum additional five year term. Management powers may be delegated to one or more directors (consejeros delegados) or to non-director managers (gerentes). Any such delegation should be evidenced by an appropriate

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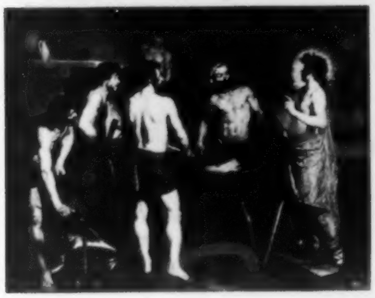

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Income Tax

A Spanish corporation will be subject to corporate income tax in Spain on its world-wide net profits at the flat rate of 35 percent. Losses may be carried forward for five years. At present, dividends remitted to a foreign shareholder are subject to dividend withholding tax at the rate of 25 percent, however, Spain has a tax treaty with the U.S. (The Tax Treaty for the Avoidance of Double Taxation) whereby the dividend witholding rate applied to U.S. shareholders is either 10 percent or 15 percent depending on certain factors. In contrast, the after-tax profits of a branch may be remitted to its home office free of any withholding tax.

The withholding tax on royalties, interest and similar payments made abroad is generally 25 percent, but under the treaty, it can be as low as 5 percent.

Exchange Controls

Under the Spanish Exchange Control Law (Law 40/79 of 1979), all foreign exchange transactions are subject to government control. "Foreign exchange transaction" is defined broadly and includes, inter alia, "a non-resident acquiring or disposing of any right or asset situated in Spain; a resident entering into any transaction under which he may become a creditor or debtor of a non-resident, or the disposing of any such right or obligation; a non-resident acquiring or disposing of assets denominated in pesetas; and a resident paying or receiving payment from a non-resident."

As a general rule, the Exchange Control Law requires prior administrative authorization for all payments and receipts between residents and non-residents (Royal Decree 2402 of October 10, 1980). However, this requirement will not be applicable if the underlying transaction has been "liberalized" or specifically approved. For example, no additional authorization will be required to remit:

(a)the royalties and other fees accruing under a registered transfer of technology agreement;
(b)the profits arising from a registered foreign investment; or
(c)the purchase price of imports covered by a valid declaration or license.

To remit funds abroad, a party must submit all supporting documents to the particular bank which intervenes in the transaction. Upon verifying that these documents support remittance, the bank will make available the corresponding foreign exchange. If the documents contain any irregularity, the bank must report to the General Directorate of Foreign Transactions ("GDFT").

Transfer of Technology

The Spanish Transfer of Technology Law (Royal Decree 1750/1987) generally provides that contracts contemplating the importation of technology or the use of foreign-owned patents, trademarks, know-how, business or industrial software and franchise agreements be submitted to the GDFT for "administrative verification." Failure to obtain such verification could prevent the remittance abroad of "royalties" or similar payments in foreign currency.

Under the Transfer of Technology Law, the GDFT is empowered to review only the reasonableness of the consideration stipulated in the contract. If, upon reviewing the contract, the GDFT determines that it contains clauses which may violate the Spanish or EEC Competition rules, it will refer the application to the appropriate antitrust authorities. However, such action does not affect the verification of the contract for transfer of technology purposes.

To obtain verification, the resident must complete and file an application form with the GDFT, along with the documents, in duplicate, which evidence the transaction (e.g., contracts or invoices). If the GDFT does not object to the contract or request additional information within 30 days after the date of filing, the contract will be deemed "verified." Upon verification, the resident may remit payments abroad through any Spanish bank. The verification is valid for a maximum period of five years. Upon the expiration of this period, the GDFT will renew the verification upon request.

Imports and Duties

To import any product into Spain, the importer must have first obtained an import license from the General Directorate of Exportation in the Ministry of Commerce ("GDE"). Alternatively, if the product falls within a category of products which have been "liberalized", the importer need only file a prior declaration with the GDE.

To obtain a license or file a declaration, the importer must specify, inter alia, the applicable payment terms. If these terms require an advance payment of the purchase price, the importer should indicate this requirement. Generally, the GDE will authorize such prepayments upon request. The GDE should automatically accept a declaration, provided that all other applicable legal requirements have been satisfied.

In general, an importer must pay duty and value added tax upon importing products into Spain. Duty rates are based on the nomenclature number and the origin of the products being imported and the rate of the value added tax is generally 12 percent. Also, the duty and value added tax apply only to permanent imports.

Temporary imports are subject to prior authorization from the Import Office of the Ministry of Economy and Finance. Authorizations for temporary importations are granted for a maximum period of two yearsand are renewable for one additional year. No duty or value added tax is assessable on temporary imports unless they are not re-exported from Spain within the applicable period. Ω

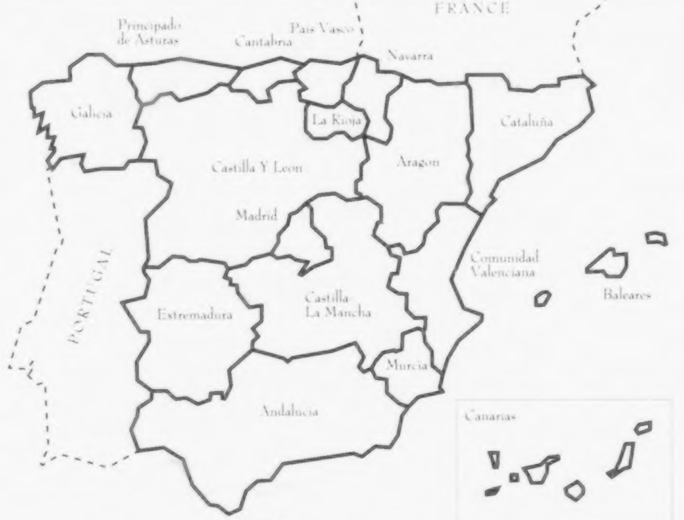
The authors are partners at the law firm of Baker & McKenzie.

Spain's Autonomous Communities (Regions)

Region & Capital	*Pop. (M)*	*Tot'l For'gn Investm't 1990 ($M)*	*Percent of Spain's GDP 1989*	*Principal Industries*
Andalusia, *Seville*	6.9	982	12.8%	*Tourism, manufacturing, shipbuilding, processed food, fruit, vegetables, cattle*
Aragon, *Zaragoza*	1.2	243	3.4%	*Services, metal products, transportation equipment, machinery, processed food, fruit, vegetables, wine*
Asturias, *Oviedo*	1.1	91	2.7%	*Services, minerals, steel, coal, mild*
Balearic Islands, *Palma de Mallorca*	0.7	248	2.9%	*Tourism, leather products, costume jewelry*
Basque Country, *Victoria*	2.2	508	6.0%	*Services, steel, home appliances, shipbuilding*
Canary Islands, *Santa Cruz de Las Palmas de Gran Canaria*	1.5	374	3.8%	*Tourism, refined petroleum, potatoes, bananas*
Cantabria, *Santander*	0.5	27	1.3%	*Services, metal, chemicals, milk products*
Castilla-La Mancha, *Toledo*	1.7	83	3.4%	*Services, minerals, chemicals, processed food, beverages, wine, vegetables, cereals, sheep, goats*
Castilla Leon, *Valladolid*	2.6	125	6.8%	*Services, energy, chemicals, metals, processed food, sugar, legumes, cereals, cattle*
Catalonia, *Barcelona*	6.1	5.370	19.3%	*Tourism, high technology, electrical equipment, transportation equipment, chemicals, paper, textiles*
Extremadura, *Merida*	1.1	21	1.8%	*Services, processed food, vegetables, tomatoes, cereals, cattle feed, cork*
Galicia, *Santiago de Compostella*	2.9	96	5.9%	*Services, metal products, shipbuilding, fish, milk products, corn, forest products*
La Rioja, *Logrono*	0.3	25	0.7%	*Services, automobile parts, machinery, beverages, wine, fruit, vegetables*
Madrid, *Madrid*	4.9	8,261	15.0%	*Government, services, advanced technology, business equipment, pharmaceutical, publishing, robotics*
Murcia, *Murcia*	1.0	91	2.2%	*Services, metal products, processed foods, vegetables, fruit, tanned hides, wood, cork*
Navarra, *Pamplona*	0.5	398	1.5%	*Services, metals and automobiles, vegetables wine, forest products*
Valencia, *Valencia*	3.8	386	10.5%	*Tourism, footwear, furniture, toys, ceramics, automobiles, chemicals, citrus, rice*

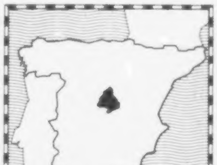
Map of Spain

showing the Autonomous Communities and Regions


FRANCE
Principado de Asturas
Pais Vasco
Cantabria
Navarra
Galicia
La Rioja
Cataluña
Castilla Y Leon
Aragon
Madrid
PORTUGAL
Comunidad Valenciana
Baleares
Extremadura
Castilla La Mancha
Murcia
Andalucia
Canarias
Ceuta
Melilla
MOROCCO

Madrid 1992, European Cultural Capital

Not only the "Natural Capital" of Hispanic culture, it is also a thriving business center



The area of Madrid which enjoys the status of an Autonomous Region, has over 5 million inhabitants; 3 million of which live in the capital.

The Community of Madrid is the second most industrialized region in Spain. The gross added value generated by Madrid's industry amounts to 12 percent of the Spanish total in several fields: transport materials, paper and graphic arts, and electronic materials. In the chemical and pharmaceutical industry, it contends for leadership only with the powerful Catalonian Community.

Nevertheless, it is in the field of services where the Autonomous Community of Madrid clearly takes over the rest of Spanish Regions. We must bear in mind that most large Spanish holdings are based in Madrid, and this brings about a flow of services or the so-called "head-office effect" with a remarkable multiplying results. For instance, five of the seven large Spanish banks are based in Madrid, as well as 80 percent of Spanish companies with the highest turnover figures.

As to foreign investment, both important banks and leading consulting firms have established their headquarters in Madrid, from which they often control their operations in this part of the world.

It also happens quite frequently that large multinationals choose Madrid as a base for operations with Spanish American countries, due to the close links with these countries.

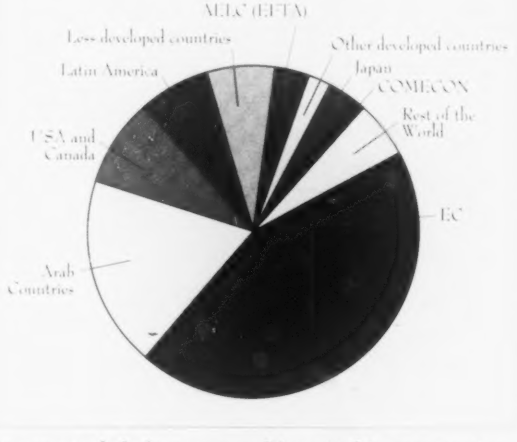
Madrid's airport, Barajas, is the most important airport in the Iberian peninsula and provides a crucial air link between Europe and Spanish America.

Madrid also houses the recently completed Juan Carlos I Trade Fair Grounds, which is considered Europe's most modern precinct. For these reasons and more, 40 percent of Spanish foreign trade is carried out in Madrid. In addition, 84 percent of Spain's stock transactions (and there are three other stock markets in Spain) occur in Madrid as well.

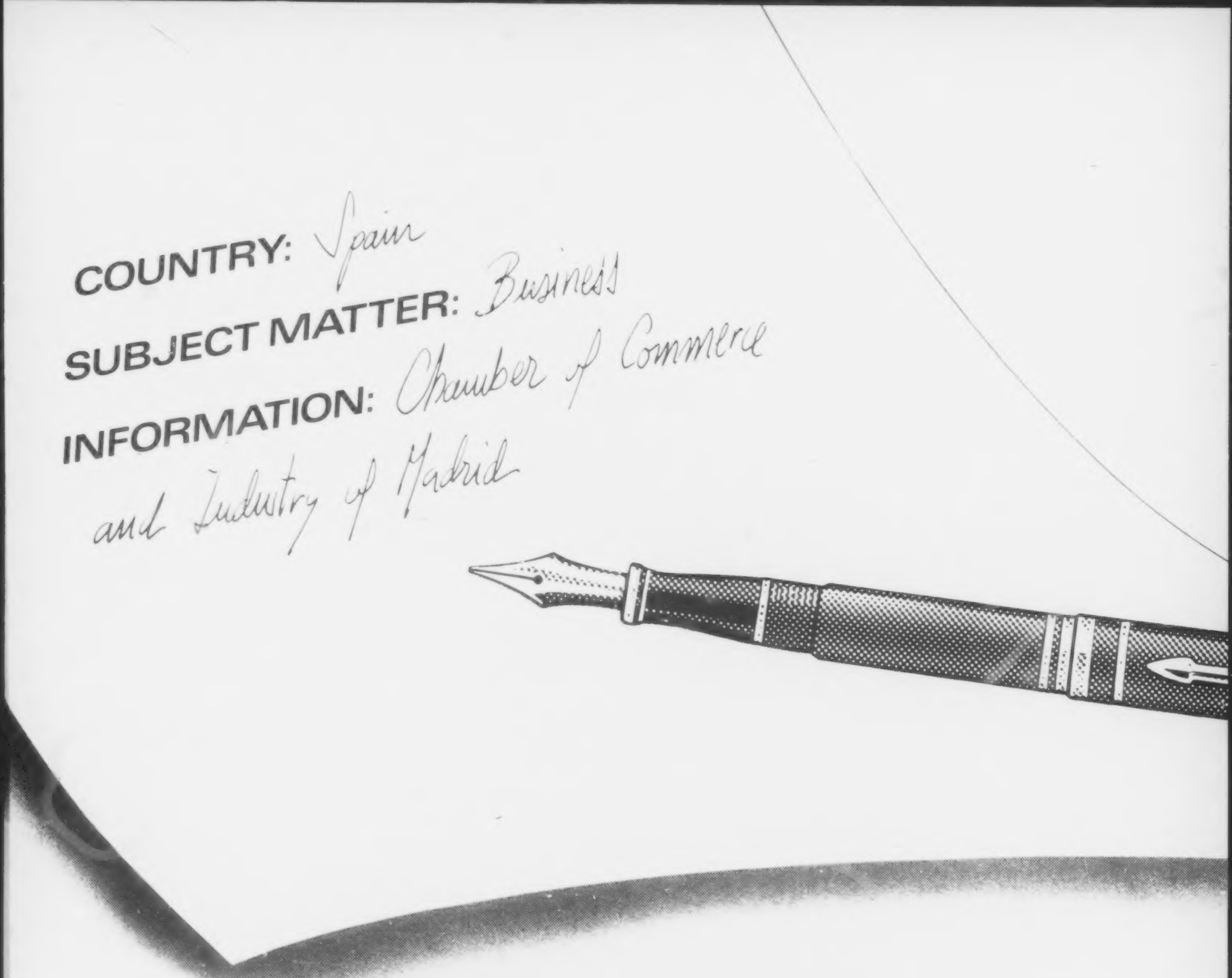
To speak about the service industry in the Community of Madrid is to speak about the unquestionable motor of the Region's economy, and the area with the highest share of the nation's gross domestic product (GDP). The service industry accounts for about 75 percent of the Region's GDP and employs 70 percent of the active population in Madrid. It also makes Madrid the decision-making center for Spanish political and economic activity, and the recipient of 46 percent of total foreign investments.

We will now quote the President of the Chamber of Commerce and Industry of Madrid, Mr. Adrian Piera, in his presentation of the annual report for 1990:

> Once again the Chamber fulfills its customary obligation by presenting its Annual Report for 1990, the purpose of which is to inform Madrid's traders and industrialists about some of the numerous and various activities carried out throughout the year.



Destination of Madrid Exports, 1984


COUNTRY: Spain
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INFORMATION: Chamber of Commerce and Industry of Madrid

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The Chamber of Commerce and Industry of Madrid has more than 300,000 members and over 100 years of experience in the service of companies. If you are thinking of making business contact with Spain, then this organization can supply you with any information you may need about the Spanish market, along with technical, legal and commercial advice; help with documentation; promotions; investments...
The Chamber can help you take the first step and give you the fullest and most exhaustive information about your future market.

Chamber of Commerce and Industry of Madrid

Head Office: Huertas, 13. Madrid 28012. Phone no. 538 35 00. Fax 538 36 77

After reaching its centennial in 1988, the Chamber keeps giving proof of its efficiency in responding to the new requirements of a modern economy, in promoting trade, industry and services and defending their interests. To achieve these goals, this institution has taken an active part, not only in the debate over the most important economic problems of Madrid, but also in those of Spanish society and economy, as an integral and basic part in the current European scene.

One year after the start of our new service, the "Eurowindow," the main purpose of which is to supply information, advice and reply to inquiries by firms on matters concerning the European Community, the results could hardly be more encouraging, judging from the number of inquiries (over a thousand) received over this period.

Among the various aspects of international relations, promotion of foreign trade is to be highlighted as one of the most important goals of this Chamber. Spain still has a very high trade deficit, for which business cannot be held basically responsible. In this juncture, an energetic and resolute strategy must be adopted to support the presence of our products and our companies in the international markets, particularly in the European markets. In order to encourage and stimulate international business operators and exporting or potentially exporting firms, the Chamber of Madrid has started several aid and support projects. These range from advisor aspects to the actual management in the promotion of exports, the opening of new markets and taking part in fairs, among others. All this work is efficiently supported by the scholarship students in foreign trade sent every year by the Chamber to those countries where their work is most needed. All this has not prevented the Chamber from paying close attention to training activities, a must for the good performance of companies, especially small and medium-sized ones. In this respect, not only the high amount of training courses given is noticeable, but also their contents, knowledge of which is absolutely essential in applying new techniques for the development of economic activity and firm management. Furthermore, such is the volume of training activities that this Chamber has had to promote the construction of a modern building that will house the newly created Training Center, equipped with the best and most advanced materials and media, and staffed with an increasing number of highly qualified teachers.

Another noticeable aspect has been the great effort to meet the standards this Chamber has imposed itself in getting closer to the businessman in time and efficiency. We have completed a vast computerization program that already includes all services, supported by institutions with the most advanced technology in economic forecasts and data banks, and have created other programs that will start working in 1991, such as the videotext and videoconference. Along the same lines, in 1990 our new branch office at Alcala de Henares was opened and put at the disposal of all the enterprises of that important industrial area.

I welcome this opportunity to express my most sincere gratitude to all Central, Local or Community Government officials for granting their support to our work. They have shared tasks entrusted to us in the service of a community to which we are entirely devoted. This feeling of gratitude must be extended to the Members of the Board, for their untiring efforts; to the Chamber's staff and to so many people who contributed, most generously, often anonymously, their help and cooperation. As for those who have departed, they will remain forever in our memory.

Destination of Madrid Exports, 1984

Economic Area	*Value in millions of pesetas*	*%*
EC	582,624	44.38
Arab Countries	243,971	18.58
USA and Canada	113,324	8.63
Latin America	90,062	6.86
Less developed countries	87,865	6.69
ALEC(EFTA)	42,577	3.24
Other developed countries	29,699	2.26
Japan	28,055	2.14
COMECON	24,927	1.90
Rest of the world	69,641	5.32
Total	1,312,745	100.00

SOURCE: *Regional Government of Madrid "Estructuras del Comercio Exterior de la Région de Madrid, 1986"*

List of Spanish Companies with Largest Foreign Stockholding and Headquarters in the Region of Madrid *(By investment volume)(August 1987)*

Company	*Sector*
Galerias Preciados	Department Stores
General Motors España, S.A.	Vehicle
Mercedes Benz España, S.A.	Vehicle
Standard Eléctrica, S.A.	Electronic
Antibióticos, S.A.	Pharmaceutical
Hornos Ibéricos, S.A.	Cement
Unilever España, S.A.	Sundry
Industria Española de Aluminio S.A.	Metals
Philips Ibérica, S.A.E.	Electronics
Fábrica Española de Magnetos, S.A.	Electrical material
IBM	Computers
Alcampo, S.A.	Department Stores
Banco Arabe Español, S.A.	Banking
Europistas Concersionaria Española	Public Services
Ibérica de Electrodomésticos, S.A.	Household Goods
Banco de Descuento, S.A.	Banking
Citibank España, S.A.	Banking
Inmura, S.A. y Cia	Construction
John Deere Ibérica, S.A.	Vehicle
Rio Tinto Minera, S.A.	Chemical
Banco de Finanzas, S.A.	Banking
Nueva Asociación para Nutrición	Food
Tarragona Química, S.A.	Chemical
BNP España, S.A.	Banking
Manifacturas Fotográficas Españolas	Chemical
Promotora de Hipermercados, S.A.	Department Stores
Upjohn Farmoquímica, S.A.	Chemical
Empresa Nacional de Autocamión	Vehicle
Banco Hispano Americano	Banking
Laing Ibérica, S.A.	Construction

October 3, 1991

Letter to The Business Link readers

Dear Friends:

In Spain, AT&T has found good partners, good employers, and a business environment conducive to both high technology manufacturing and the rapid improvement of international communications.

AT&T has offered international telephone communications between the United States and Spain for more than half a century, but it was only four years ago that we opened our first factory in Spain. We are pleased with the results.

AT&T now employs 3,000 people in Spain, including those who worked for NCR before the recent acquisition.

The first factory, called AT&T Microelectrónica de España, began as a joint venture with the Spanish government and Telefónica de España and is now completely owned by AT&T. Located in Tres Cantos near Madrid, the factory shipped its first chips in 1987. The factory manufactures custom chips for AT&T's use and for our customers. We are very pleased with the quality of the work and the ability of our Spanish employees to produce a high technology product. These employees are making sub-micron chips, the most advanced technology.

Our satisfaction with our Spanish plant was demonstrated recently when we selected Spain as the location for another factory. This factory, a joint venture with Amper called Network Systems España, will begin shipping telecommunications equipment in 1992.

Of course, AT&T has continued to improve communications between the United States and Spain. We are just completing installation of an undersea fiber-optic cable, TAT-9, that connects the United States and Canada to Spain, France and the United Kingdom. Service on the cable should begin in early 1992. We have plans for another fiber-optic cable from the U.S. and Mexico to Spain and Italy in 1994.

And we have expanded service offerings between the U.S. and Spain, introducing toll-free calling, dedicated and dial-up digital circuits, as well as USADirect service.

For companies wishing to expand into Europe, I recommend they take a look at Spain. It has been the right choice for us.

Robert E. Allen
Chief Executive Officer
AT&T

The Barcelona '92 Olympic Games, A Boost to the Spanish Economy

BY JOSEP MIQUEL ABAD

SPECIAL REPORT

Little more than a year before they take place, the Barcelona '92 Olympic Games are set to become much more than an important event in the sporting calendar. The traditional hospitality of the Spanish people, the consolidation of the Olympic ideals as an instrument of universal harmony and the realization of Barcelona's 60-year dream of organizing the Olympic Games have generated a strong sense of identity with the Olympic movement. Sport in general and the Olympic Games in particular, enjoy massive popular support. For this reason, the 1992 Olympic Games will be a tremendous celebration in which the warmth of the people of Barcelona will without doubt play an important part.

The Barcelona '92 Olympic Games will also serve to reunite the Olympic Family after a long period in which they have been affected by events outside the world of sport; they will be the Games of Communication, with an estimated audience just for the opening ceremony of 3,500 million people; and they will be the Games where our motto "Friends for Life" will reach its maximum expression as we offer the whole Olympic Family and the public in general an unforgettable stay in Barcelona, Catalonia and Spain.

The Games have also become an important boost to the Spanish economy and a stimulus to capital investment from both internal and external sources, with investors very much focusing their attention on the Barcelona area. The Games have encouraged the Spanish business community to take financial risks, to multiply investment and to form associations with foreign capital in order to successfully meet the double challenge represented by the 1992: the single European market and the reactivation of the Spanish economy.

The Spanish market is going through a period of reactivation, the fruit of appropriate economic policies combined with impressive creative vitality at all levels. In 1990, the growth rate of the Spanish economy surpassed the already notable rhythm registered since 1986.

Foreign companies have found Barcelona to be an ideal location in which to establish their businesses, thanks to its excellent communications and proximity to the rest of Europe, to the availability of a well-qualified workforce, to the existence of a solid economic structure, to the technologically advanced levels of the region and to the existence of a social environment which guarantees the success of new enterprises. Within this context, the organization of the Olympic Games has become a determining factor in the reactivation of the Spanish economy.

This is demonstrated by the size of direct and indirect investment which has been made around the concept of Barcelona '92, calculated at $24 billion. The size of this investment, the extensive construction work on local infrastructure and their effects over the whole territory testify to the fact that the Olympic Games have brought to Barcelona one of the largest development schemes presently under way in the whole of Europe. The growth of the Olympic Games in recent years has been astounding with more national Olympic committees taking part, more athletes and more sports. And increased presence on the part of the mass media: huge television audiences, greater coverage and higher levels of interest in sponsoring the Games.

Other factors have also contributed to consolidating the position held by the work, image and future of Barcelona as we lead up to the celebration of the XXV Olympiad. One factor is the favorable climate of opinion in the world towards Spain and the confidence generated by the political stability established by its Spanish democratic system. Add to this the increased presence of Spain in international forums, the creative richness and vitality of the Spanish people and the expression "Spain is in fashion" becomes a palpable fact.

The 1992 Games will, according to all forecasts, surpass all previous records of participation and transmission. In 1992, Barcelona will truely create many "Friends for Life". Ω

JOSEP MIQUEL ABAD *is the Chairman of the Barcelona Organizing Olympic Committee (COOB '92).*

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Imagine how impressive it will look when it's completed.

Your eyes eagerly explore the magnificent structure which towers hundreds of feet above you. You are mesmerized by its grandeur. And moved by the intricate stone carvings which eloquently convey the mystery and meaning of faith.

It is an architectural marvel of such magnitude that work on it continues to this day—more than a century after the legendary Gaudí conceived it.

Welcome to the international symbol of Barcelona. Welcome to La Sagrada Familia.

Spectacular though it is, your visual and emotional odyssey has only just begun. You will be enthralled by many other such wonders: the immortal Alhambra, mythical fortress of Granada. Córdoba's Great Mosque, with its endless arches and polished marble columns. The majestic masterpiece that is the Royal Palace of Madrid. The Alcázar at Segovia, perhaps the most breathtaking castle in all the world.

They are all here, awaiting the moment of your arrival. And you will savor every moment you spend with them. For each is an extraordinary destination along your journey of discovery.

Spain

Everything Under The Sun.

ESPAÑA

Murcia: A Reality in the 1990's

In the last decade, Murcia has made extraordinary efforts to develop its infrastructure in order to meet the demands of its fast growing economy

SPECIAL REPORT

Situated in southeastern Spain, on the Mediterreanean coast, the region of Murcia comes into sight as the region with enomous development potential, enhanced by its geographical situation, its climate and its economic dynamism.

Throughout the 1980's Murcia made great efforts, both in developing its infrastructure and modernizing the different sectors that make up the base of the regional economy.

Murcia's communications have become tightly connected with Europe by the Mediterranean motorway. To this should be added its air and sea communications, which together with its privileged geographical location, have converted the region into one of the most attractive areas in the south of Europe.

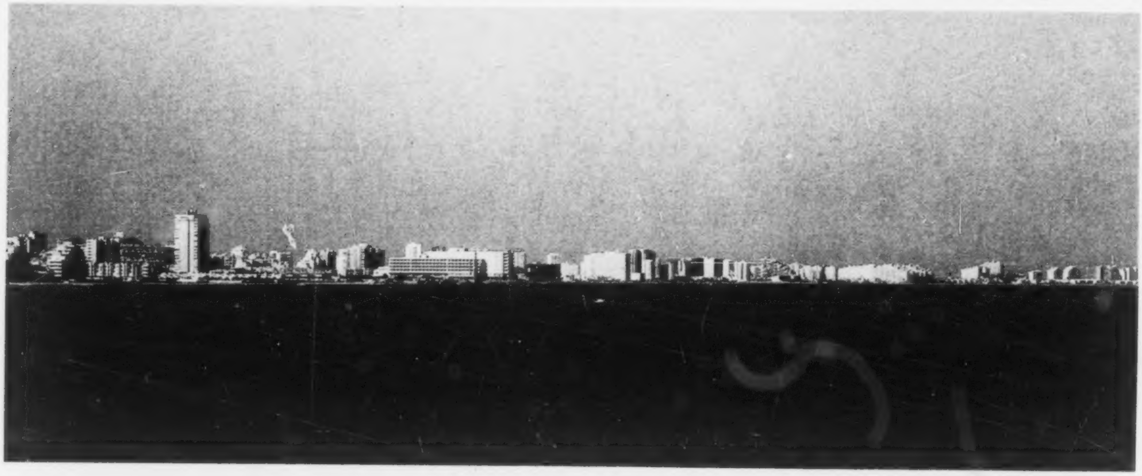
Murcia's economic activities show remarkable progress. The agricultural sector has been strengthened and modernized by incorporating new technologies. In turn, these have improved in the quality of its products and consequently, the agro-alimentary industry, a traditional activity of the region.

Improvements and new national and foreign investments in the chemicals and derivatives sectors, of which there is an important concentration in Cartagena, as well as in traditional manufacturing industries like furniture, tanned leather, metalgraphic, etc., have spectacularly strengthened the region's industrial fabric and allowed Murcia to face the decade of the 1990's with optimism.

Infrastructure and Resources

At present, the Region of Murcia has an excellent road network which is connected to the European motorway. The national Motorway Programme (1984-1991) has provided a motorway connection between Murcia and the French border and therefore, with the rest of Europe. To the south, the same motorway connects the Region with Granada, Almeria and Seville, Malaga and Cadiz, forming a continous roadway along the Mediterranean coastal strip. The completion of this direct motorway has been of enormous importance for the Murcian economy, one of whose main bases is the exporting of fresh products, which have to be delivered to foreign markets in short periods of time.

The same National Motorway Program has linked Murcia and Cartagena by a dual carriageway, which is vitally important in handling the heavy freight traffic

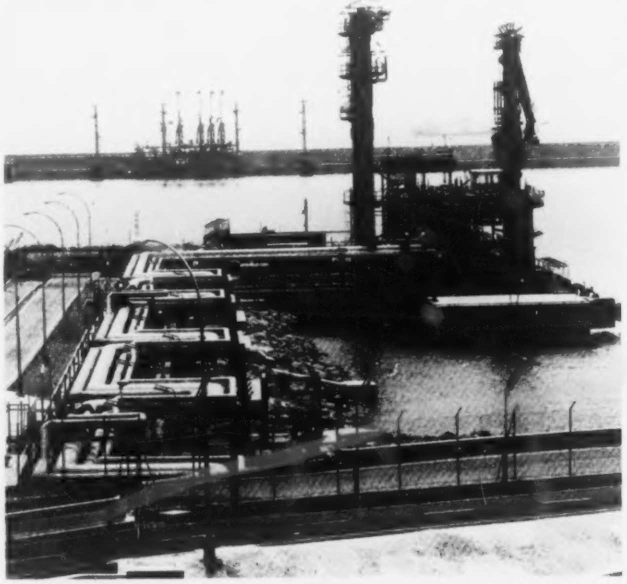


from the Port of Cartagena. This motorway continues towards Albacete and Madrid, with the several stages still in progress and due for completion in the near future.

The Central Government's ambitious investment plans in the national railway network, with the introduction of high speed trains and a change in the gauge, will greatly improve the present railway connections in the Region of Murcia. At present, the network is approximately 300-kms-long and links Murcia with the main Spanish cities, Madrid, Valencia and Barcelona.

By air, the region is connected with the main cities in Spain and Europe by daily flights from the San Javier and El Altet airports, both a half-hour drive from Murcia.

The Port of Cartagena is the most important in the region and due to its geographical location, one of the busiest in the Mediterranean. Because of its outstanding natural location, the industrial Port of Cartagena has been used since the time of the Phoenicians. It has two docks, Cartagena and Escombreras. The first is used for the transportation of general freight and containers, while the second is dedicated to solid and liquid bulks.



At present, both docks are undergoing important expansion projects to increase the capacity of containers and liquid bulks, in order to cover the growing demands of the chemicals and plastics sectors.

The Port of Cartagena also includes a bonded warehouse which is in the process of being expanded with large open air areas and covered areas to store merchandise.

Gas, Electricity and Telecommunications

The state company Enagas owns a regasifiction plant in Escombreras valley (Cartagena), which came into operation in 1989, with a gasification capacity of 55,000 N.m3 per hour.

In the initial phase, natural gas was supplied to the fertilizer companies in Escombreras valley and Cartagena and to the mining and metallurgic companies in the industrial belt of Cartagena. A gasoduct was built to facilitate industrial and domestic gasification in Cartagena and, in the future, it will be extended to other parts of the region.

Since General Electric, a company which consumes large quantities of natural gas, both as raw material and fuel, decided to establish themselves in Cartagena, and in view of the forecasts for industrial development in the Region of Murcia, Enagas is carrying out a complete investment program in its plant in Cartagena. This will increase the gasification capacity originally predicted by double or even treble.

The company Hidroeléctrica Española has a thermal power station in Escombreras valley, with a power generation capacity of over 800 mw. Murcia is also connected to the national high tension network (400 kw). The area of Cartagena is connected to the nuclear power station at Cofrentes (Valencia) and the thermal power station at Carboneras (Almeria). Electricity is distributed locally with tensions of 220 kv, 132 kv, 66 kv and 20 kv. In addition, the Region of Murcia offers great potential in renewable energy sources, such as wind and geothermal power and solar energy. The constant increase in communication demands for business and new domestic applications is causing extensive incorporation of new technology in the telecommunications sector.

All the telecommunications services, both conventional (telephone, telex, fax and mobile telephone) and advanced (videotext, data phone, data transmission, networks) are available in the region. A great investment effort is being made in the region to establish digital telephone centers and to modernize transmission systems by incorporating MIC systems and optic fiber. As a result, mobile telephone service is available in almost the whole region. Within the Star Program, developed by the EEC, the videotext system is being introduced, involving five offices of integrated telecommunications services (OSIT) distributed around Murcia, with more than 2,000 video terminals in local companies and institutions.

Industrial Sector

The most important industries of the region (chemicals, refinery, metal, wood and agro-alimentary), have maintained their traditional position in the regional economy, showing excellent growth rates. At the same time, other subsectors such as textiles, leather, shoes, marble and wine are undergoing improvement projects to increase their value and to prepare them to enter the new EC market. Therefore, the development of products with new designs, complete with improved image and quality, are being investigated; new marketing strategies that are more in accordance with market demands are being developed; and new buying and selling techniques are being applied.

The internal industrial development of the Region of Murcia, which was consolidated in the 1960's and linked since the beginning to the agro-alimentary industry, has determined a series of activities that have been fully implemented: canned vegetables, meat products, wines and mining. At the same time, new sectors are achieving an important position in the region's production framework: leather tanning, leather clothing, clothes making, metal products, concrete, building materials, chemicals, marble and wood. Finally, the presence of technologically advanced activities like biotechnology, pharmaceuticals and cosmetics are already notable.

The Regional Government has undertaken special measures to attract investments aimed at the chemicals, electronics and automobile subsectors, since Murcia can offer a range of comparative advantages for their developments above those of other Spanish regions.

In chemicals and its derivatives, mainly plastics, the region has an important business base in the area of Cartagena, where large national and international companies that are already established (Repsol, Ercros and General Electric among others) assist the performance of other similar companies.

The dynamic investment has greatly encouraged the presence of foreign companies in Murcia such as the American G.E. Plastics in the chemicals sector who is building a macroplant for the production of engineering plastics and silicones. GE's invesment of $2.5 billion has created 1900 jobs. Murcia is also home to the British Photobioreactors Ltd. in the biotechnology sector and the Italian Caglio Star, in animal enzymes. The British company, Bulmer, and the American Riverbend, both in citric derivatives, and others have also decided to invest in Murcia in the last two years.

In electronics, a great effort is being made in professional training to cover the deficit in its work force, which until now has been the main obstacle to the establishment of these industries. In addition, the creation of a technological park, aimed at electronics and advanced technology companies, will encourage the establishment of such companies in Murcia.

In the automobile sector, a French multinational company, Valeo, is already established. Owing to its geographical location, the Region of Murcia is in a strategic position to supply the large companies located on the Mediterranean axis, such as Ford, Volkswagen, Nissan, General Motors.

It is also worth noting that the figures for relative labour costs in the region are 25 percent below the national average. Employment and labor costs have contributed to a notable improvement in productivity, although in relative terms, it remains below the national average.

Services Sector

It is the service sector that contributes most to the regional GDP. In recent years there has been a positive increase in both production and job creation. This constant development is causing considerable changes in the region's commercial activity, owing to the appearance of large stores and the application of new sales systems and techniques. This new commercial framework is located around three main areas: Murcia, Cartagena and Lorca. Although this commercial framework is made up of premises with an average surface area of approximately 70 m2, this figure is tending to rise because of the gradual establishment of hypermarkets and supermarkets.

Regarding commercial specialization, more than 50 percent is dedicated to food products. In this context, the role of Mercamurcia stands out as the first and major central market that supplies the region.

An equal rate of growth has been registered in other subsectors within the services sector. The Region of Murcia is among the leaders in the size of its fleet of freight transport vehicles and has achieved a leading position in international transportation. There is also a great movement of merchandise through the Port of Cartagena, one of the most important in the Mediterranean Sea, as well as through the two airports which supply the region.

WHY
DO OTHER
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COMPANIES
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MURCIA?

REGION OF MURCIA - SPAIN

Because:

- The Single European Market is here!
- Our excellent communications with all Europe.
- Our privileged living conditions on the Mediterranean Coast.
- Our well trained labour force availability.
- We provide you with subsidies and soft loans for your investments.

Come to Murcia, contact us, and you will know why General Electric is building the biggest plastics plant of the world in Murcia.

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Télex 67892 ICTO E
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30005 MURCIA (Spain)

Regarding tourism, the region has maintained a balance between offer and demand. This offer includes hotels and guest houses, tourists apartments and campsites. It is expected that the present growth rate in this subsector will be maintained because of long stretches of undeveloped coast and unexploited resources inland, .

Finally, it is worth noting the increasing presence of companies that offer their services to other businesses, based mainly in the urban areas de Murcia, Cartagena and Lorca. The banking sector includes all the national branches as well as the most important foreign ones. Attracted by this high level of economic development, consultancies (fiscal, investment, legal and business), financial services, computer-programmed assessment services, advanced communications as well as technical and engineering consultancies have recently settled in the region.

A Growing Region

Advanced technology has been introduced in the agricultural sector in greenhouses, flower growing, sophisticated irrigation systems and biotechnology.

Another unusual characteristic of Murcia's agricultural sector is its protection abroad, assisted by the long established exporting tradition of the region. Sales of agricultural produce constitute a large part of total exports, making a significant contribution to the surplus in the trade balance of Murcia.

Within the food processing industry, food preserves represents 60 percent of Spain's production, with the incorporation of the latest biotechnological advances. Rapid progress has also been made in the meat, wine, compound feed and essential oils industry.

The agricultural and industrial growth parallels the evolution of the service sector's growth, representing more than 50 percent of the regional GDP.

Sports tourism has discovered the Mar Menor as a unique natural setting for water sports. There are excellent golf courses, spas and the famous Sierra Nevada ski resort. Cultural tourists can also enjoy the richness of historical towns and rural villages

An optimum education and training environment plays an important part in the economic development of Murcia. The University of Murcia has Faculties of Economics, Law, Computer Science, Chemistry and Engineering. There are also important research centers.

In short, it can be stated that the geographical conditions of Murcia, its climate and its excellent infrastructure in services make it an ideal place for investment.

The Instituto de Fomento of the Region of Murcia as a development agency, possesses the adequate tools for supporting investments. One of its specific goals is the promotion of economic development and the improvement of competitiveness of local companies by introducing them to new production processes and emerging technologies.

To achieve this goal, the Instituto has different tools available such as soft loans, labor training programs and comprehensive site location studies.

Murcia is a preferrential area within the European Community and classified as Type I, where written non-refundable incentives are available up to 50 percent of the total investment. The Instituto is also the body in charge of evaluating the incentive applications.

Many companies have discovered the economic growth potential and investment dynamism that characterizes the Region of Murcia. Relatively low cost industrial land, a wide range of industrial services, a skilled labor force, a good labor climate, together with the highest living standards on the Mediterranean coast are some of the factors which make Murcia the right place to invest within the Europe of the 1990's. Ω

EXPO '92 Fuels $10 Billion Regional Development Effort

It is the largest in Europe, after Channel Tunnel

SPECIAL REPORT

Expo '92 is driving one the largest regional development projects of end-of-century Europe, second only to the Channel Tunnel which will connect England and France.

The beneficiaries of this investment of more of than $10 billion by the Spanish government are the Autonomous Region of Andalusia and it's capital, Seville.

Projects under way include a new high-speed rail link between Madrid and Seville, quadrupling the capacity of Seville's San Pablo airport and the construction of a new fibre-optic telecommunications system.

It is an investment not just for the six-month Exposition, which is expected to draw more than 18 million visitors to this two-thousand-year-old city, but also for the future of the entire southern region of Spain. The Exposition site is designed to become an academic, scientific and technological research complex after Expo '92 closes. Such companies as computer manufacturers IBM and Fujitsu, electronics firms Siemens and Rank Xerox, the Spanish phone company Telefónica and its affiliate Alcatel Standard Eléctrica, and Sevillana de Electricidad will remain on the site as part of this complex.

> Expo '92 has already created 18,000 jobs

Andalusia, the southernmost region in mainline Europe, is a gateway to North Africa, the western Mediterranean and Latin America. The Spanish government hopes "to transform Seville and Andalusia into an economic center for the whole western Mediterranean" according to Emilio Cassinelo, the Commissioner General for Expo '92

To that end, Spain's first World Trade Center opened last January on the Expo site. The 247,000-sq.-ft. building is equipped with satellite communications and videoconference facilities, a 1,000-line telecommunications system to handle voice, data, videotext and a facsimile transmissions, conference facilities, fully equipped offices, and a full range of support services, from secretaries and drivers to interpreters.

Eighteen thousand jobs have been created so far in sectors connected with the infrastructure project. Expo '92 has also given rise to a broad-based worker training and education program that affects an additional 7,000 people.

A 300-mile stretch of high-speed railway line will come into service in spring 1992, connecting Andalusia to the rest of Europe and cutting travel time between Madrid and Seville to less than three hours, from six.

A new Madrid-Seville highway will halve travel time and join the Andalusian capital to the European road system. The entire regional road system is being upgraded. Drivers from Rome, Vienna or Copenhagen will be able to reach Expo '92 without leaving the motorway.

Seville's two railway stations have been replaced by a huge new station, called Santa Justa, in the southeast of the city. Work has been completed on seven new bridges over the River Guadalquivir, and the river water is being purified and recycled. A motorway, circling the city, has been completed.

Plans also call for an increase in the capacity of the Seville Airport to 4,600 passengers an hour, from 1,300. Capacity at nearby Malaga and Jerez airports also will expand significantly.

A new fibre-optic digital telecommunications network, meeting international regulations, will bring the region into the information age. Wide-band transmission equipment will link up with other networks via an earth satellite station.

In the 16th century, with its royal warrant giving it a monopoly of trade with the Americas, Seville was a wealthy and important city. The goal of this redevelopment effort is to make it, as it was in the days of Columbus, a hub of commerce and intellectual activity for the western Mediterranean. Ω

[Seville]

The South of Spain: A Gateway to the Future

As a high interest zone, this area will be the focus of business and growth opportunities in coming decades

SPECIAL REPORT

One key event provides the springboard for this privilege situation: Expo '92, the last Universal Exposition of this century, which is to be held in Seville. An event at which we can explore the crucial technological discoveries and advances that will shape the coming century. As a result, Andalusia has been transformed into a region equipped with a very sophisticated infrastructure consisting of state-of-the-art communications, energy and transport systems.

Cartuja '93 has been conceived to make the most of this extraordinary infrastructure and convert the region into one of the most competitive in Europe. It is a project that aims to create a scientific and technological complex, open to international cooperation, capable of launching and promoting technological innovation and research and development projects. Cartuja '93 is an experiment which is already set in motion that goes beyond a regional development program.

The New Development Profile

The Cartuja '93 project is a collective reflection on how best to reutilize the infrastructure and equipment left by the Universal Exposition. The project is an initiative of the Expo '92 State Company (SOGEXPO) and Andalusian Regional Government, working though the Institute for the Promotion of Andalusia (IFA). It will be located on the Isla de La Cartuja, site of Expo '92, equipped with immense technological potential and able to maintain the universal dimension which defines the Exposition.

Cartuja '93 gives the Exposition a sense of continuity, and will serve to bridge the world's centers of decision-making and scientific and technological production. The universal projection of Cartuja '93 will also be integrated into the productive fabric of Andalusia, given that one of the priorities of the project is to vitalize the technological development of the region.

To this end, the conception and design of Cartuja '93 is based on a series of studies on the economic and technological realities of Andalusia, as well as on international experience of the development and growth of other innovative milieus. These studies have been carried out within the framework of the Research Project into New Technologies in Andalusia (PINTA). They are the work of an interdisciplinary team of professionals from the Universities of Seville, Malaga and the Autonomous University of Madrid.

This team was led by two world experts on regional development and new technologies, Professors Manuel Castells, the Director of the Institute of the Sociology of New Technologies at the Autonomous University of Madrid, and Peter Hall, Director of the Institute of Regional and Urban Development at the University of California in Berkeley.

There will be three types of organizations at Cartuja '93:

- public, scientific and technological research institutions;
- large companies and industrial corporations;
- regionally based industries.

These organizations will be involved in research and development projects in the following areas:

- Telecommunications.
- Microelectronics.
- Advanced Automation.
- Robotics.
- Computer Sciences.
- Biotechnology.
- Renewable Energy.
- Environmental Technology.

Companies affiliated with EXPO '92

IBM
Telefónica
BBV
Banco Central
Banesto
Banco Hispano Americano

ALCATEL
Coca-Cola
La Cruz del Campo, S.A.
Fuji Film
Siemens
Rank Xerox

Philips
Fujitsu
Once
Tierras del Jerez
Primary Industries of Australia Ltd.
MAPFRE

EXPO '92: The Basic Facts

Host City: *Seville (Spain).*

Status: *Universal (1st Class) as defined by B.I.E. (International Exhibitions Bureau).*

Theme: *The Age of Discovery.*

Site area: *215 hectares (2,150,000 m2) (450 acres).*

Constructed Area: *50 hectares (500,000).*

Parking space: *over 40,000.*

Pavilions: *To be constructed by participating countries, international organizations, companies and the Autonomous Communities of Spain, as well as the organizer's theme companies.*

Participants: *More than 100 countries, many international organizations, 17 Autonomous Communities of Spain and up to 20 private companies.*

Opening date: *20th April, 1992, (Easter Monday).*

Closing date: *12th October, 1992. The anniversary of the discovery of America.*

Duration: *6 months (176 Days).*

Visitors: *18 million. (55 percent Spanish, 45 percent other.)*

Total visits: *40 million.*

Visits per visitor: *2.01.*

Visitors on a given day: *290,000.*

Means of access to site: *car, bus, train, boat, helicopter, horse-drawn carriage, pedestrian walkways.*

Investments in the surrounding infrastructure: *800,000 million Pts.*

Investments on site: *75,000 million Pts.*

350,000 trees and plants, over 400 different varieties, 35 km of hedges, 500,000 square meters of park land and gardens

30 km of on-site roadway

6 entrance gates

7 access routes: 4 vehicular, 2 pedestrian, 1 rail

7 new bridges over the Guadalquivir

16 entertainment venues

96 restaurants

51 shops

70 bars and cafes

3 monorail stations

3 cable-car stations

To coordinate these bodies, with each other and with the industrial, agricultural and service structures of Andalusia, there will be a number of center on the Cartuja Site.

A New Approach

The development model for Cartuja '93 is thus based on very concrete realities: First, it will re-use the infrastructure, both interior and exterior, inherited from the Universal Exposition, an event with a public and private investment program totalling over 5 trillion pesetas. Second, Cartuja '93 will take advantage of the network of international relations and contacts originated at the Universal Exposition—contacts which are multiplied if we take into account Spain's role as an intermediary between the European Community, Latin America and North Africa.

For these reasons, Cartuja '93 will consolidate its international dimension and will become an ideal framework (due to geographical, cultural, economic and political factors) for international technological co-operation projects. Furthermore, the international dimension of Cartuja '93 will increase the business and development prospects of all the companies which work within its milieu.

There will be a unified management structure for the urban environment of Cartuja '93. Even though the ownership of the land is shared between the State and the Autonomous Community of Andalusia, a public limited company has been constituted specifically for the purpose of administering the site. The shares of the company are divided between the State (51 percent), the Autonomous Community (44 percent) and the City Council of Seville (5 percent). The fact that the State is the majority shareholder in this company makes Cartuja '93 a State Project. This substantially differentiates it from other technological parks which are usually regionally based. Ω

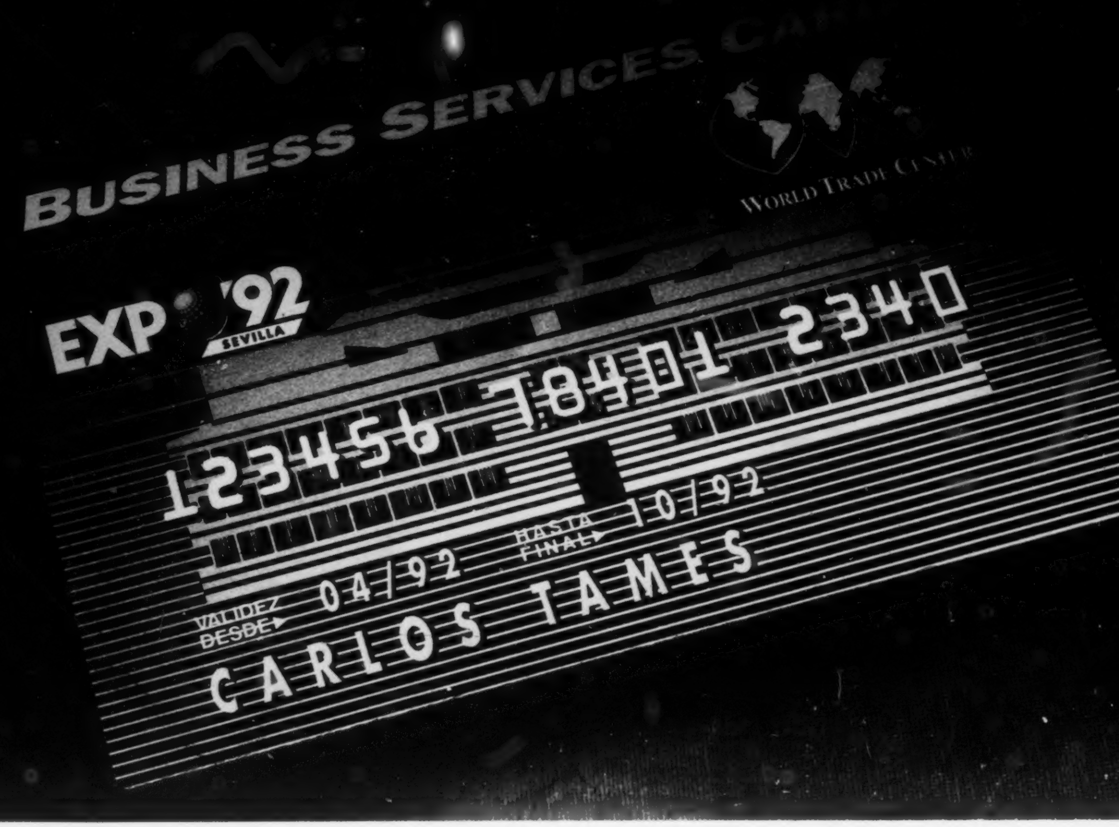
Universal Exhibitions: a brief history

The first of the great modern international exhibitions was held in London in 1851. Such was its success that Paris was inspired to hold a succession of exhibitions, beginning in 1855 and continuing until 1937. Similar events were held in Vienna, Amsterdam, Brussels, Barcelona, Philadelphia, Chicago and elsewhere.

All attempted to capture the spirit of their time and place. London's Great Exhibition of 1851 was a celebration of the prosperity generated by the Industrial Revolution and an expression of the imperial ambitions of Victorian England.

Similarly in our own times, the Brussels Exhibition of 1958 reflected the reconstruction of Europe after the Second World War, Montreal in 1961 mirrored the Canadian national character, and Osaka's in 1970 symbolised the emergence of Japan as a major economic force.

To do business in the Spain of 1992, sign up for this card.



1992 is a big year for Spain: Madrid becomes Cultural Capital of Europe, Barcelona hosts the Olympic Games, and Seville the EXPO'92 Universal Exposition, the event of the century and one that means big business.

EXPO'92 is a unique opportunity to make business contacts with countless companies from all over the world. Start off with an advantage: apply now for your EXPO'92 Business Services Card. Not only is it your passport to the EXPO'92 World Trade Center (400,000 member companies the world over and part of the network of more than 200 World Trade Centers). It also entitles you to preferential access to the business services provided at EXPO'92 with you in mind. All this for just 50,000 pesetas (approx. $450).

Send off for your Business Services Card now. It shows you mean business.

EXPO'92 SEVILLA

WORLD TRADE CENTER

Send this coupon to: SOGEXPO, World Trade Center EXPO'92, Isla de La Cartuja, Seville 41010, Spain. For further information, fax: (345) 446 25 05.

Card-holder: .... *Company:* ....

Position in company: .... *Address:* ....

City: .... *Country:* .... *Ph:* .... *Fax:* ....

For 50,000 ptas. your card is valid from now on until the end of EXPO'92: for 25,000 ptas it is valid for 1 week during the EXPO'92 period (20 April - 12 October 1992).

Payable by:

☐ *50,000 ptas* ☐ *25,000 ptas*
Cheque enclosed

☐ *50,000 ptas* ☐ *25,000 ptas*
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☐ *50,000 ptas* ☐ *25,000 ptas*
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If paying by credit card, give name & number:

Name: ☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐ *Number:* ☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐

Strategic Location; Dynamic Investment

Centrally located and bordering France, Aragon boasts a surging economy and a natural thoroughfare to Europe

SPECIAL REPORT

The Autonomous Community of Aragon, to give the region its full title, is situated in the northeast of Spain, occupying a surface area of almost 48,000 sq. km., which represents 9.4 percent of Spanish territory. It has a population of 1,700,000 and is divided into three administrative units, namely the provinces of Huesca, Teruel and Zaragoza.

Its geographical situation gives Aragon a number of positive advantages with respect to its economic development. First because it has a common frontier with France. The distance to most of the countries which make up the European Community is, in comparative terms, much shorter than from other regions within Spain. Additionally, it is situated in the centre of the northeast quadrant of Spain, at a point where the vertices of the most developed areas of the country, that is to say, Cataluña (Barcelona), Valencia, Madrid and the Basque Country, coincide: these areas, taken together, constitute a potential market of more than eighteen million people within a radius of less than 400 km. To this should be added the fact that the Valley of the River Ebro, which passes through Aragon, has in recent years become the most dynamic area of development in Spain.

These factors, together with others such as ease of communications, workforce, etc., were instrumental in persuading General Motors to site a car production plant in Aragon at the beginning of the 1980's.

Percentage distribution of GDP

	Agriculture	*Industry*	*Construction*	*Services*	*Total*
Huesca	13.3	26.7	8.8	51.2	100
Teruel	10.8	41.5	7.7	40.0	100
Zaragoza	4.8	32.8	5.7	56.7	100
Aragon	6.9	32.7	6.5	53.9	100
Spain	5.5	26.3	6.7	61.5	100

Geographical Location

Aragon covers an area bigger than European Community (EC) countries such as Luxemburg, Holland, Belgium and Denmark. It makes up 9.44 percent of Spain's total land surface. Its exceptionally good location gives it some of the most profitable sites in Spain, in the center of the main development area, and a natural thoroughfare to Europe.

Economy

Since joining the EC, the Gross Domestic Product (GDP) of the Spanish Economy has felt a sharp rise. The accumulative growth in the three year period between 1987-1989 is the highest of all countries belonging to the OECD, bettering the EEC countries in general by several points. Growth in Aragon follows this trend.

% Gross Domestic Product Variation

	1986	*1987*	*1988*	*1989*
Spain	3.1	5.2	5.5	5.2
Aragon	4.1	6.1	5.0	5.0

The economic structure in Aragon is characterized by its high rate of industrialization.

Percentage of GDP

	Agricultural	*Industry*	*Services*
Aragon	6.3	38.8	54.9
Spain	5.0	33.2	61.8

The E.E.C. is the main market of Aragon. France, the United Kingdom, Germany, Italy and Portugal are the countries which are among its most important clients.

Aragon Trade Relations

	% Import	*% Export*
EEC	84.5	85.8
EFTA	6.5	4.4
USA	2.6	1.8
Other	6.4	8.0
Total	100.0	100.0

Regarding the consumer market, there are good prospects of a high growth, this is backed up by the growing development of Spain and its regions' economies.

Purchasing Power

	USA	*JAPAN*	*SPAIN*
GDP per Person	21,307	15,155	9,883
T.V. per 100 persons	79.0	56.3	32.2
Telephone per 100 persons	78.8	55.5	38.2
Cars per 100 persons	54.7	22.9	24.0
Trucks per 100 persons	16.4	14.3	3.9

Communications

Excellent communication by road and rail. Connection by turnpike and highway between the four main cities (Madrid, Barcelona, Bilbao and Valencia), within a radius of 187 miles. A good airport with national and international passenger flights and regular freight flights.

Market

30 million consumers, with a high purchasing power within a radius of 249 miles. An open door for your business in Europe with a single market of 320 million consumers.

Technology

An innovative and dynamic industrial network, aided by the Aragon Institute of Technology, the public bureau which helps promote research, development and the application of advanced technology.

Standard of living

High standards in educational, cultural and health service facilities combined with a pleasant climate, with many hours of sunshine, enables the full use of leisure time at the sports amenities in the nearby mountain and coastal resorts.

Infrastructure

Industrial zones are characterized by the absence of pollution. Natural gas is used on the main estates and there is a large area of industrial ground available, at a comparatively cheaper purchase price than the rest of Europe and even the rest of Spain.

Aragon's Industrial Structure

Industry	*% Production*	*% Employment*
Metal products and machinery	25.4	27.4
Power and electricity supplies	18.8	7.3
Transport material	16.1	10.9
Food products, drinks and tobacco	10.0	12.0
Textile, leather and shoes	7.7	15.8
Chemical products	5.5	5.9
Mineral and metal	5.4	6.5
Paper and printing	4.7	3.8
Wood, cork and furniture	3.4	3.9
Rubber, plastic and others	3.0	3.9
Total (construction excluded)	100.0	100.0

Labor Resources

Non-conflictive labor situation, with a well-trained blue-collar labor force, excellent technicians and management groups. Supported by Professional Training Centers, Technical Engineering Centers, the University and Higher Polytechnic Center. For specific training of company personnel, there are training schemes organized and financed by institutions, on demand.

The average level of pay for workers in Aragon, together with a qualified workforce with the ability to adapt, make a worthwhile difference when a company's production costs are broken down.

Wages	*Index*
EEC	100
Germany	119
Spain	77
United Kingdom	83
USA	123
Japan	137

Advice

The Aragonese Development Agency (Instituto Aragonés de Fomento), the Public Bureau for Development, and the Chambers of Industry and Commerce are at your service to answer any queries you may have and will gladly help you.

JOHN F. SMITH, JR.
VICE CHAIRMAN

SPECIAL REPORT

General Motors Corporation

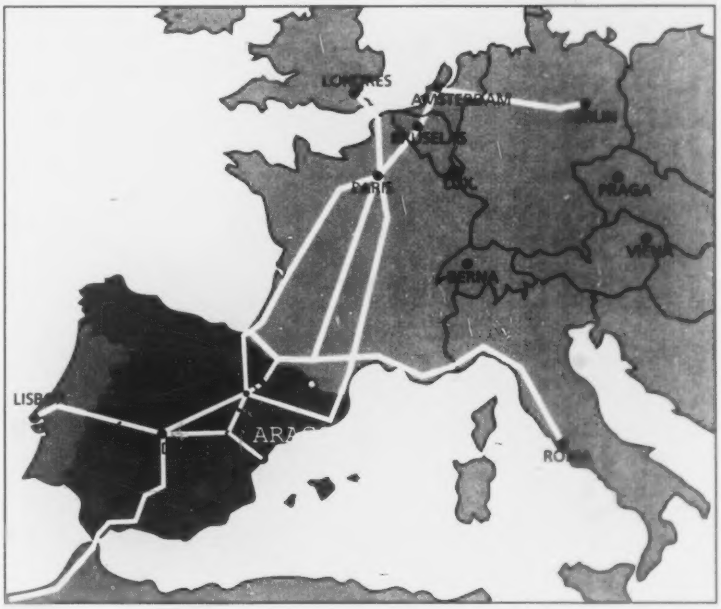
September 24, 1991

Spain has achieved an extraordinary rate of economic growth and social progress since entering the European Community in 1986, and General Motors is proud that we have had a role in it.

Recognizing the importance and potential of Spain well before this economic boom, General Motors selected Zaragoza and Aragon in 1979 as the location for a modern, high-technology automobile manufacturing facility. Since then, the region's skilled labor, supportive national and regional officials, and productive local industry have made it a very successful operation. It is now one of the most efficient car producers in the world. It is a strategic part of our pan-European automobile operations, and the sole producer of Opel Corsa and Vauxhall cars for all of Europe.

GM Espana is proud to co-sponsor, on behalf of Aragon, this promotion tour of Spain in the United States and Canada. We know it's a good place to do business, and we'll be delighted to welcome new industrial neighbors.

John F. Smith



ARAGON THE GATEWAY TO EUROPE

If you have thought about establishing your operations in EUROPE, Spain is the place. And within Spain, ARAGON is the gateway to do business with EUROPE. Not only because of our excellent location and communications, but because we, the Aragonese, are used to working with dynamic neighboring countries. We are not going to let you fend for yourself because there is an organization at your disposal that will be prepared to help your business get ahead.

The Council of Chambers of Commerce and Industry of ARAGON will always be by your side. Count on it.

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CAMARA DE COMERCIO E
INDUSTRIA DE HUESCA

CAMARA de COMERCIO
e INDUSTRIA de ZARAGOZA

Cámara Oficial de Comercio
e Industria de Teruel

The Valencian Community: Land of Opportunities

BY GUILLERMO AMUTIO

SPECIAL REPORT

The Government of Valencia, through its Department of Economy and Public Finances, has committed itself to promote the Valencian Community in order to offer an excellent location to U.S firms that want to capitalize on the 1993 European Single Market. To better achieve this purpose, the Valencian Government has decided to provide potential investors with information concerning investment opportunities in the Valencian Community. Through out the following article we hope that you will be able to understand all that the Valencian Community has to offer and why Valencia is called the Land of Opportunities.

Location and Population

The region of Valencia is located on the eastern edge of Spain and, with its 301 miles coast along the Mediterranean sea is strategically positioned as a transportation and trade crossroad between northern Europe and the Mediterranean countries. Its size is similar to the State of Massachusetts and has a total population of almost four million inhabitants.

The capital of the Valencian Community is the city of Valencia with approximately 1.4 million people. Other important cities are Alicante (260,000 inhabitants), Elche (175,000 inhabitants) and Castellon (127,000 inhabitants).

Its climate is extremely mild and pleasant and prove of that is that its clean beaches are preferred by most foreign visitors to Spain. Its contribution to spanish GDP and population have made Valencia the third autonomous region in importance of Spain.

Communications

Valencia is easily accessible from the rest of the world by air, road, rail and sea. The Mediterranean superhighway directly links Valencia with the European Highway Network. The railroad network provides excellent communications with the rest of Spain and Europe. Moreover, the future high-speed line will link Valencia with the European Network via Barcelona.

The international airports of Valencia and Alicante have regularly scheduled flights with capitals around the world and the flight time to all capitals of EEC countries varies from one to three hours.

Valencia has five main merchant ports: city of Valencia, Alicante, Castellon, Gandia and Sagunto. The port of the city of Valencia has excellent installations with 4.3 miles of quays, over 9.6 million sq. feet of storage space, specialized installations for loading and unloading bulk solids and liquids, silos, refrigerated warehouses, dockyards, duty free deposit areas, container terminals and a modern maritime station for passengers. The rest of the harbors provide a means of transportation for agricultural and industrial products.

Economy

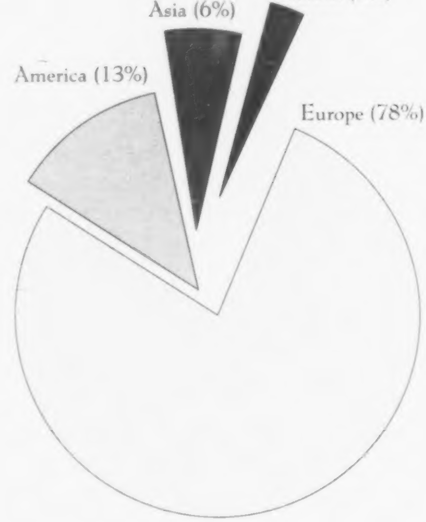
Valencia is, along with the other European regions of the mediterranean coast, one of the most dynamic areas of Spain and Europe. For the past six years, the rate of growth of its GDP and investment have been higher than the Spanish and European average. This high levels of expansion are based on an increasing importance of the service sector which accounts for 61 percent of the GDP and on the industrial sector product diversification, which accounts for 28 percent of the GDP. The industrial sector of the Valencian Community is speacialized in the production of consumer goods. Agriculture provides only 5 percent of GDP although it is highly advanced in its production and marketing methods. The quality of agricultural products from Valencia is well known all around the world. The construction sector account for 6 percent of the GDP.

A strong business tradition has provided Valencia with an economy based on small and medium sized business activities which means highly diversified production of which the most significant products are automobiles, data processing equipment, ceramics for construction and decoration, footwear, textiles, toys and, furniture and wood.

Valencia holds an impressive export record. Twenty six percent of Valencia's GDP comes from exports, a higher percentage than for any other part of Spain, or even Japan, Germany or the USA. Some of Valencia's larger companies have become multinational groups: Lladró, Lois, Pascual Hermanos and Porcelanosa are just some examples. Other multinational groups such as Ford Motors and IBM recognized the excellent opportunity that Valencia offers and have benefited from it for a number of years. The auxiliary industry supplies all inputs and services needed for any line of production.

Total Exports from Valencia-1988

(Total: 767 billion ptas.)



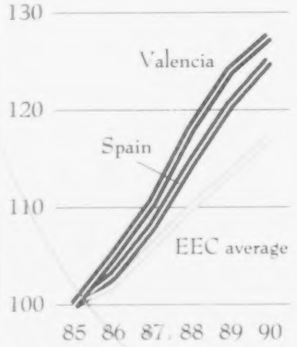
SOURCE: CHAMBER OF COMMERCE VALENCIA

Industrial locations are not polarized in one single area, they are spread through out the Valencian Community. Some areas have specialized in the production of certain products such as, toys, footwear, food and textile in Alicante, ceramics in Castellon and, furniture, textile, chemicals, data processing equipment, food, beverages and, automobile in Valencia. The supply of industrial soil in Valencia is enormous and there is a wide selection of prices and locations to choose from.

The Valencian Government has strongly supported the location of industries in certain areas considered as Areas of Industrial Development. In this matter, the Research and Development Center of Valencia has played a major role in promoting the establishment of industries with a high technology component and that will also help diversify the Valencian economy.

Accumulated Rate of GNP Growth

Index: 1985=100



SOURCE: GOVERNMENT OF VALENCIA

Research and Development

The Government of the Valencian Community has assumed the task of further improving the region's economy. For that purpose, the Government is participating with the private sector, in those ventures requiring a great amount of capital for research and development on the most important sectors of the Valencian economy. The Research and Development Center of Valencia is a good example of this line of action. The purpose of these Research and Development Centers is to strengthen the links between the private sector, the Universities and, companies' research and development departments. So far, nine centers have been developed: Mechanic and Metal Industries, Food Industry, Furniture Industry, Textile and Clothing Industries, Toy Industry, Footwear Industry, Construction Industry, Ceramics Industry, Biomecanic Industry, Optical Industry and Plastic Industry.

The Centers provide applied research and technological development projects, technical and commercial consulting, quality control of raw materials and finished products, standardization and homologation of products, design studies, specialized training and educational courses and, dissemination of technical information and documentation. The Centers have an excellent communication network and it is within a few miles from the superhighway, the Valencia International Airport, the merchant port of Valencia and, the Valencia International Trade Fair Center.

SPECIAL REPORT

Labor Force

Valencia has a very young working population. Over 70 percent is between 15 and 44 years old, so labor is readily available at every level of qualification. Valencia's universities and vocational training centers ensure an excellent supply of graduates engineers and technicians.

Labor costs are lower than in most European countries and companies have a wide variety of contracts to choose from, in order to adequate their needs to the length of the contract. Labor legislation is flexible and its goal is to provide maximum employment.

Financial System

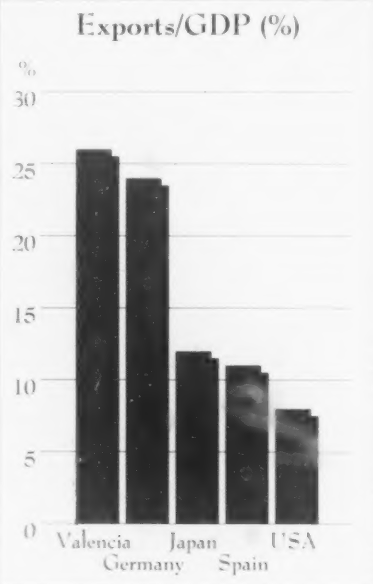
The Valencian financial system is constituted by the following institutions: Valencian Institute of Finance, Private Banks, Confederated Savings Banks, Foreign Banks established in Valencia and, the Valencia Stock Exchange. The Valencian financial system is characterized by its deep conexion with the economy and by its contribution to the development of the rest of economic sectors.

The Institute of Finance plays a major role in the control and coordination of government financing. Along with state credit institutions there is the important presence of such international banks as, Citibank, Chase Manhattan, Natwest March, Banque National de Paris and Barclays Bank.

The Valencia Stock Exchange plays a major role in the financing of Valencian companies. Moreover, a Futures Market in agricultural products from Mediterranean countries will shortly open in Valencia.

In addition, a wide range of professionals are available for fiscal, accounting and information systems consulting. Firms such as: Peat Marwick, Arthur Andersen & Co. and, Price Waterhouse, have offices throughout the Valencian Community.

Exports/GDP (%)



International Trade Fair

The fair was established in 1917 and was the first of its kind in Spain. It has the most advanced international communications systems and is the largest in Spain (3.2 million sq. feet). The quality of the exhibitions is encouraged over the quantity of them. Among other international fairs held in Valencia are: Shoe Fair, Footwear Technology and Fashion Fair, Toy Fair, Furniture Fair and Ceramic Fair.

Educational System

There are four universities in Valencia: University of Valencia, Polytechnic University of Valencia, University of Castellon and University of Alicante. The four universities together offer undergraduate and graduate degrees in all fields. Other private institutions offer a wide variety of master programs for bachelor degrees for professionals. To meet the need for other qualified labor, some 113 private and 67 state-run institutions offer vocational training to tens of thousand of students.

Primary and secondary educations is provided through state, private and religious schools. Valencia also has bilingual and international primary and secondary schools. The American Institute has been providing bilingual American style education for over 33 years. In addition, the Institute of American Studies helps those students wanting to pursue graduate and undergraduate studies in the United States.

Quality of Life

When traveling to Valencia one will discover most of what Valencia has to offer. Every year almost 3 million tourists enjoy our beaches, recreational facilities, museums, luxurious hotels, popular festivals, gastronomy, etc. Foreigners have made the coast of the Valencian Community a place to only to enjoy their holidays, but also to live round year. Some places along the Valencian coast have become one of the best real state investments around the world.

However, Valencia does not only offer excellent facilities for leisure time but also excellent services at affordable prices for people wanting to leave in the metropolitan areas. Real estate prices are much lower than those of other big metropolitan areas in Europe or other spanish cities. Mass transportation is provided by the subway system in the city of Valencia and bus lines in all the cities. Public parking is readily available through a number of recently built parking facilities near the financial and commercial areas of the City of Valencia.

Overall, the Valencian Community, one of Europe's most dynamic regions, offers an unbeatable opportunity for companies expanding their business to Europe and North Africa. Ω

For information about the Valencian Community, contact:
USA:
Mr. Guillermo Amutio
Spain-USA Chamber of Commerce
Valencian Government
Department of Economy and Public Finances
350 Fifth Ave. Suite 3514, New York, N.Y. 10018
Tel: (212) 967-2170; Fax: (212) 564-1415

SPAIN:
Ms. Inmaculada Rodriguez
Valencian Government, Department of Economy and Public Finances, Calle Palau, 14, 46003 Valencia, Spain
Tel.: (346) 386-2058; Fax: (346) 386-6209

GUILLERMO AMUTIO *is the representative in the United States of the Department of Economy and Public Finances of the Government of the Autonomus Community of Valencia.*

The following publications were used in the preparation of this article:
"In the land of Valencia"; Valencia Institute of Tourism/Arthur Anderson & Co.
"Land of Valencia"; IMPIVA (Valencia Small and Medium Site Institute.

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Information:

València Parc Tecnològic, S.A.
Phone 34-6-1994100
Fax 34-6-1994111
Apdo. 191
46980 PATERNA (Valencia) SPAIN

IMPIVA

GENERALITAT VALENCIANA
CONSELLERIA D'INDUSTRIA, COMERÇ I TURISME

Tax Considerations for Spanish Companies with a U.S. Presence

Spanish companies can reduce their U.S. tax liabilities by restructuring the scope of their activities

BY PETER N. JAMES

SPECIAL REPORT

After deciding to enter the U.S. market-place, Spanish companies have a number of ways to organize their operations. Depending on the type of U.S. activity conducted, very different tax consequences can result.

If the Spanish company simply wishes to import goods into the U.S. and does not wish to establish a physical presence in the country then generally there will be no U.S. corporate income taxes imposed on the profits of the exporting activity. Similarly, there will be no U.S. corporate income tax liability if the Spanish company imports goods into the U.S. and enlists the help of a third-party U.S. distributor or broker, who finds customers, arranges for distribution, etc. In addition, the Spanish company may maintain a facility in the U.S. to store, display or deliver its goods or merchandise without having a U.S. taxable presence. Likewise, a pure purchasing activity would not give rise to a taxable presence in the U.S. nor would a construction or installation project of short duration.

If a Spanish company wishes to have its employees in the U.S. and establish its own office with the intention of selling to, and servicing U.S. companies, then all profits earned by the activity will be subject to U.S. corporate income tax at 34 percent (the normal statutory U.S. tax rate for corporations). In certain circumstances, profits may instead be subject to the so-called "alternative minimum tax." While this tax is imposed at a lower rate, the income base on which it is assessed can be considerably greater than the income taxed at the normal 34 percent rate. The tax assessed is the higher of the normally calculated tax and the alternative minimum tax.

Once it is determined what level of U.S. activity is called for, the Spanish company will have to determine whether it wishes to conduct the activity through a U.S. subsidiary or a branch of the Spanish company. Due to changes in the U.S. tax law a number of years ago, the subsidiary versus branch decision should theoretically be uneffected by disparities in tax treatment.

In the case of a U.S. subsidiary, the profits will be subject to U.S. federal tax at a 34 percent rate (or the alternative minimum tax, if higher). Depending on the state in which the business activity is conducted, state and local taxes may push the overall income tax burden to over 40 percent. Furthermore, when the profits are paid out by way of dividend to the Spanish parent company, the dividend will be subject to a 10 percent U.S. withholding tax. Thought must also be given to whether the subsidiary should be capitalized by equity or a mix of debt and equity. For U.S. tax purposes, interest payments are deductible subject to certain limitations, while dividends are not. However, similar to dividends, interest payments are subject to a 10 percent U.S. withholding tax when paid to a Spanish company.

The U.S. taxation of a branch is similar to the U.S. taxation of a company and the major difference is that the so-called "branch profits tax" takes the place of the 10 percent withholding tax on profits distributed by way of dividend. Since the "branch profits" tax is dependent on hypothetical (or deemed) distributions of profits from the U.S. branch to the Spanish head office, its consequences are sometimes difficult to predict with certainty.

If a Spanish company wishes to license into the U.S., then a U.S. withholding tax will be assessed when royalties are paid by the U.S. user. The rate of U.S. withholding tax varies depending on the nature of the right which is being licensed. From an individual tax perspective, Spanish personnel who are sent to work in the U.S. will generally become subject to U.S. income tax if their stay exceeds 183 days in any 12 month period. Ω

MR. JAMES *is an international tax partner with the New York office of Price Waterhouse. He is an attorney and a CPA.*

A Cultural Perspective

BY FRANCISCO H. GOMEZ

Maybe you have decided to explore seriously the Spanish market. Or maybe you have decided that your company's presence in Europe could benefit from doing business in Spain. This and other reasons may take you to Spain in the near future. There are a few things you should consider that could make your trip into a very successful one or a very unproductive journey.

Check Your Stereotypes

Stereotype is a fancy word but a very useful one. Originally from the printing industry, it describes the need most human beings have to put individuals in little boxes that are confortable from them to relate to. It is then that you hear expressions like, "You know, the French are like that", "Remember, Latins are emotional...", "What happens with Mexicans is..." and so on. All countries in the world have stereotypes of their neighbors, competitors and former colonies. As a matter of fact most of us have stereotypes about most individuals; yes, especially people who say' "I don't have any stereotypes."

So it is important before you go to Spain to check your stereotype about the Spaniards and to understand their history. Ask yourself questions like: What do I know about Spain and its business climate, about sports and society? If you saw two people speaking spanish and were told one of them was a Spaniard, could I tell him/her apart. What would be the telling factors and how valid are they?

> **Spaniards redefine the expression "Work hard, play hard!"**

Be Aware of the Time Context

In American business, the value and appropriate use of time is a pervasive practice. Early in the morning to work, up to one hour for light lunch, out by the end of the day to fulfill personal business appointments and start all over the following day. Even people that want to manage their life even more, advocate flexibility and different ways to schedule their work and their lives. Time is a major determinant of American life.

In the societies with Latin and Mediterranean ancestry like Spain, the sense of urgency about time is different: the time for lunch, both the time it is taken (about 1:00) and its duration (not unusual in excess of one hour), the length of interventions per participant during business discussions and the amount of time spent socializing.

Do not be misled, however. You will find Spaniards that work harder and longer hours than you, but in general their time context is different than in the U.S. Learn to pace and work it into your schedule.

Remember Portugal

Although a different country in language, customs and history, Portugal's strong trade and investment connection with Spain must be considered. I have yet to meet a Spaniard, when asked to draw a map of Spain, that did not draw a map of the Iberian Peninsula, including Spain and Portugal.

The Work Force

The latter part of the 1980's was not good for many areas Latin American businesses. Explosive inflation rates, political changes and economic plans started by governments not always gave the expected results. Consequently, trained professionals, especially from Argentina and Brazil, emigrated, and Spain was a common destination. A client of mine involved in medical technology maintains a research unit in Spain that has produced a respectable portion of their patents worldwide. On all levels, the Spanish work force is eager to learn and is always better prepared than expected. Keep this in mind when looking for location sites in Europe.

Spaniards have given new meaning to the expression "Work hard, play hard!" When you go to Spain be prepared for long workdays and late dinners with spirited conversations and with individuals interested in learning about you, America your business and also very proud to show you their beautiful and multifaceted country where business is serious and professional, but where social interaction has been elevated to an art. Ω

FRANCISCO GOMEZ *is President of Executive Development International (EDI) based in Greenwich, CT which helps companies around the world adopt to the profound change processes necessary to compete globally.*

Country Market Information

Investing in/ Importing from Spain

Contact the Spain Desk Officer and the Spanish Commercial Offices

Spanish Commercial Offices:
Commercial Office of Spain
405 Lexington Ave., 44th floor
New York, N.Y. 10174-0331
(212) 661-4959
Fax: (212) 972-2494
Telex: 51060114778 OFCOME NY UQ

Embassy of Spain
Commercial Office
2558 Massachusetts Ave., N.W.
Washington, D.C. 20008
(202) 265-8600
Fax (202) 265- 9478
Chicago
(312)644-1154
Fax: (312) 527-5531
Los Angeles
(213) 628-1406
Fax: (213) 628-1504
Miami
(305) 446-4387
Fax:(305) 446-2602
Hato Rey, Puerto Rico
(809) 758-6345
Fax: (809) 758-6948

More investment information:
Coopers & Lybrand
1251 Avenue of the Americas
New York, NY 10020
Ask for:
"Guide for Business and Investors"

U.S. duties on imported products:
Customs Services
U.S. Treasury Department
1301 Constitution Ave, N.W.
Room 2216 CS
Washington, D.C. 20229

Taxation Information

Deloitte, Haskins and Sells
1114 Avenue of the Americas
New York, NY 10036
Ask for:
"Taxation in Spain"

Touche Ross & Company
1900 M St., N.W.
Washington, D.C 20036
Ask for:
"Tax and Investment Profile"

Price Waterhouse
1801 K St., NW, Suite 1000 K
Washington, D.C. 20006
Ask for:
"Doing Business in Spain"

Common Market Reports
Commerce Clearing House, Inc.
Sales Office
3 First National Plaza
Chicago, IL 60670
Ask for:
"Doing Business in Spain"

Exporting to Spain

Contact your local Department of Commerce District Office for an "Agent/Distributor Service (ADS)." If you are planning to visit Spain, contact the U.S. Foreign Commercial Service for a "Gold Key Service."

Questions on Spanish Customs rules/regulations for import:
Contact your importer for details, and refer to Dun & Bradstreet's *Exporter's Encyclopedia.* Your may also write to:
(Directorate General of Customs)
Direccion General de Aduanas e Impuestos Especiales
Guzman el Bueno, 137
28003 Madrid, Spain

Questions on Spanish packaging, marking, and labeling requirements:
Contact your importer for details, and refer to Dun & Bradstreet's *Exporter's Encyclopedia* You may also write to:

(Directorate General of Tariff Policy & Imports)
Direccion General de Politica Arancelaria e Importacion
Guzman el Bueno, 137 28003
Madrid, Spain

Questions on Spanish standards:
Information Center
National Institute of Standards and Technology (NIST)
U.S. Department of Commerce
Administrative Building A-629
Gaithersburg, MD 20899
(301) 975-4040
Fax: (301) 963-2871

AENOR
Asociacion Espanola de Normalizacion y Certificacion
Calle Hernadez de la Hoz, 52
28010 Madrid, Spain
011-34-1 410-4851
Telex: 46545 unor e

American National Standards Institute
1430 Broadway
New York, NY 10018
(212) 354-3300
Fax: (212) 302-1286

Submitting a product for Spanish standards certification:
GlobTek Laboratories
7800 River Road
North Bergen, NJ 07047
(201) 861-0246
Fax (201) 861-0740
Telex: 755579
GlobTek GUTT. UD

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IF A MANUFACTURER, EXPORTER, IMPORTER ETC..., INDICATE PRODUCTS ____________________

____

TYPE OF MEMBERSHIP ____________________

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Facts & Contacts

SPECIAL REPORT

Spanish electrical standards:
National Standards Institute
Instituto Nacional de
Racionalizacion y
Normalizacion (IRANOR)
Serrano, 150
28006 Madrid, Spain

Questions on Spanish patent protection:
Register of Industrial Property
Ministry of Industry and Energy
Dpto. de Patentes y Modelos
Panama, 1
28036 Madrid, Spain

Agricultural Exports

Questions on the export of agricultural goods to Spain:
Foreign Agricultural Service
Room 5514, South Building
U.S. Department of Agriculture
Washington, DC 20250
(202) 382-9013
Fax: (202) 382-8069

Marketing and trade promotion information:
AIMS Project
Room 4945, South Building
U.S. Department of Agriculture
Washington, DC 20250
(202) 447-7103
Fax: (202) 472-4374

For finished agricultural goods:
U.S. Department of Agriculture
High Value Products Division
Room 4649, South Building
Washington, DC 20250
(202) 447-7103
Fax (202) 472-4374

Fish and Seafood Exports

Fish and Seafood Trade Statistics:
Fishery Resource Statistics Division
National Marine Fisheries Service
U.S. Department of Commerce
Washington, DC 20235
(202) 673-5335

Marketing & trade promotion information on U.S. fish exports:

National Marine Fisheries Service
Office of Trade and Industry Services
Room 26249, Metro Building 1
1335 East West Highway
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Telefónica

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Telefónica was the first privately held European telecommunications company with a nationwide network. More than 700,000 shareholders today hold the majority stock, and the shares are quoted on five international stock exchanges including New York, London, Tokyo, Paris and Frankfurt. Today Telefónica owns the ninth largest telephone system in the world with 12.6 million lines and more than 140,000 integrated business lines.

Telefónica supports a wide range of services to meet different user requirements.

The public data network IBERPAC supports 78,000 dedicated connections as well as 516,000 switched connections via the public telephone network. The first of its kind in Europe and the second in the world to use this technology, IBERPAC is connected to 67 countries, thereby giving access to some 125 data networks.

Telefónica has a state of the art private virtual network called IBERCOM. This is the first network in Europe which specialized in integrated business communications configured as a VPN. IBERCOM connects to several foreign VPN's such as AT&T's GSDN and MCI's VNET. Other services include 800 numbers, country direct, ISDN and Cellular.

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Upgrading Spain's Telecommunications

Spain is making steady and consistent efforts to close the telecommunications gap with its European Community partners in preparation for the coming free trade conditions

BY JOHN FLEMING

The basic framework for regulating the Spanish telecom sector came into force during 1988, addressing the technology gap with ambitious investment plans to modernise and expand the network, while gradually opening up the market for peripheral equipment and services.

While the effective state monopoly of the core telecom services, such as the transmission of voice and data, will remain in the hands of Telefónicas (Spain's semi-privatised telecom company i.e. the state owns 32 percent) until the mid-1990's, valued added services were to be completely liberalised. The Administration predicted that this liberalisation would stimulate domestic industry, as well as foreign suppliers, to meet the forecast increased demand for equipment and services.

Industry sources are only moderately optimistic about the pace and extent of this regulation of the Telecommunication sector. They have serious doubts about the capacity of Telefónica to successfully implement their ambitious plans. And there are doubts about the sincerity of the Administration to fully liberalize the terminal market as the new regulations leave a host of areas undefined and many questions unanswered.

> **The Spanish telecommunications sector is forecast to more than double in size by the year 2000 to reach 7% of GDP. Already, Spain is the world's sixth largest telecom market**

A Large and Tempting Telecom Market

According to Jose Borrel, the Minister for Public Works and Transport (which includes telecommunications) the Spanish Telecommunications sector is forecast to more than double size by the year 2000, to reach 7 percent of GDP. Already Spain is the world's sixth largest telecom market.

These two facts emphasis the extraordinary potential of the Spanish telecom market as it tries to catch up with its other EC neighbors. One of the major differences between Spain and the larger telecom markets in Europe is that Spain does not have a large domestic telecommunications company. This makes the Spanish market tempting for other multinational telecom companies and partly explains the attitude of the Administration and Telefónica in its dealings with potential suppliers.

For the past 30, years the telephone and postal services have been separately administered in Spain. The Ministry of Transport and Communications runs the postal and telex services and Telefónica, runs the telephone services. In the mid-'80's, 25 percent of Telefónica shares were floated internationally on the London, Paris, Frankfort, Tokyo and New York stock exchanges.

In the wake of the rapid developments which were taking place in the market during the early Eighties, Telefónica, suppliers, and customers found themselves increasingly operating in a legal vacuum and without any clear directions from the Administration. This was particularly obvious when the basic infrastructure depended on the strategy and investment of the public sector.

The boom in demand for telecom services and Spain's entry into the EC in 1986 helped to focus the Administration's attention on this nationally important area which led to the passing at the end of 1987 of the Telecommunications Law (Ley de Ordenacion de las Telecomunicaciones) which established the legal framework for the future development of telecommunications in Spain.

The Telecommunications Law

The law sets out the basic principles for the introduction to Spain of private television, the partial liberalisation of the market for telecommunications equipment and services and the setting up of a National Telecommunications Plan to coordinate and plan future investments in the sector.

The law classifies telecommunications equipment and services into three very broad areas:

The first two areas which are (1) final services, such as the telephone, telex and telegraph and (2) transmission/carrier services (the basic telecommunications infrastructure), will remain in the hands of the public sector, mostly through Telefonica.

The two-key issues for the industry are the implementation of liberalising regulations and a National Telecommunications Plan that will define the future role of Telefónica

The third area (3) value-added services (equipment and terminals) which is to be completely liberalised, is opening up the Spanish market for the telephone equipment and telecom terminals to all manufacturers.

It is important to note that, by virtue of the Treaty of Accessions to the EC, signed in 1985, Spain can delay the implementation of some EC directives concerning the telecommunications sector until 1995.

Valued-Added Services

Although the Telecommunications Law liberalised all valued-added services, in practice some will need to be more fully defined before the administration will liberalize them.

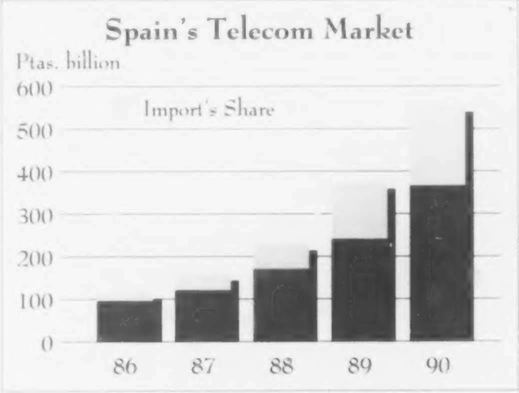
With the approval of the General Regulation in August 1989, value-added services based on radio transmission, such as mobile telephones and radio paging services, using the existing transmission network have been completely liberalised.

However, problems have arisen in the definition of data transmission and electronic messenger services which are holding up the liberalisation of these services. The Administration is closely following development in Brussels in this matter and will most likely wait until the EC forces the issue of their liberalisation in Spain.

The National Telecommunications Plan

The National Telecommunication Plan was supposed to be approved by the government within one year of the passing of the Telecommunications Law. Now, three years later, the plan still has not been finalized, let alone approved.

While few details have emerged of the discussions on the contract taking place between the President of Telefonica and the Minister for Public Works and Transport, it is clear that the definition of Telefónica's role as a public service operator in the free market environment of the '90's and into the next century is at stake.


Spain's Telecom Market

SOURCE: FLEMING CONSULTANTS

The key issues in the negotiations are the length of the contract, the rate at which Telefónica can depreciate its investments and its revenue structure.

Telefónica wants at least a 20-year contract. The Administration wants to give a shorter contract of 15 years. This issue is related to the rate of depreciation of Telefónica's investments which is fundamental to its investment capacity and the speed at which it can develop and modernise the telephone network. Telefónica wants to be able to charge commercial tariffs for commercial services and have the Administration subsidize the loss, making rural services it has to provide by law.

In the fight against inflation over the past seven years, the government has kept increases in telephone call charges below the rate of inflation. It has, however, long recognized the need to bring telecom tariffs in Spain into line with the rest of Europe.

The first step has already been made in this direction with the recent adjustment in phone charges which ups the cost of local calls (the cheapest in Europe), but reduces the very high cost of international calls. Discriminatory tariffs were abolished.

Progress to Date

Much of what will come out in the plan has already been put into effect, such as the development of Hispasat, Spain's TV satellite.

The Plan will certainly take into account the EC's further liberalisation of telecom services and harmonisation of telecom products and services. The pace at which the EC is making progress in the mapping out Europe's future telecom market has meant that much of the Telecommunications Law is out of date.

For example, Spain has had to agree that from 1995 Telefónica will lose its monopoly over the carrying of voice transmissions. Then, major users that have contracted to use a certain amount of traffic will be able to sell any spare capacity.

The early implementation of the Plan is vital to the development of an Integrated Systems Digital Network (ISDN) in Spain. The system will start in 1991, but will probably fall far short of the 5 percent of the total telecom network in 1995, as the EC recommends, because the Administration does not believe that the demand justifies it.

EC Directives and Policies

On paper, Spain appears to be pushing through a liberalisation of telecom services in accordance with the EC Green Paper and recent Directives.

In practice, however, Spain's strategy would appear to be to delay as much as possible the implementation of the full liberalisation regulations so as to force Brussels to take the lead and give Tele-

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fonica and Spanish companies time to prepare for free trade conditions.

While appearing to endorse the spirit of liberalisation, in fact the Spanish Administration has missed many target dates set by the EC, as well as those set out in the Telecommunications Law.

The Telecommunications Industry

Total revenue generated by the telecommunications sector in Spain in 1990 was estimated to be $15 billion, equivalent to 3 percent of GDP, the greater part of which is accounted for by Telefónica.

It is estimated that the market for terminals, switching and transmission equipment was worth pta 500 billion ($5 billion) in 1990, which makes Spain the fastest growing and fifth largest telecom market in Europe.

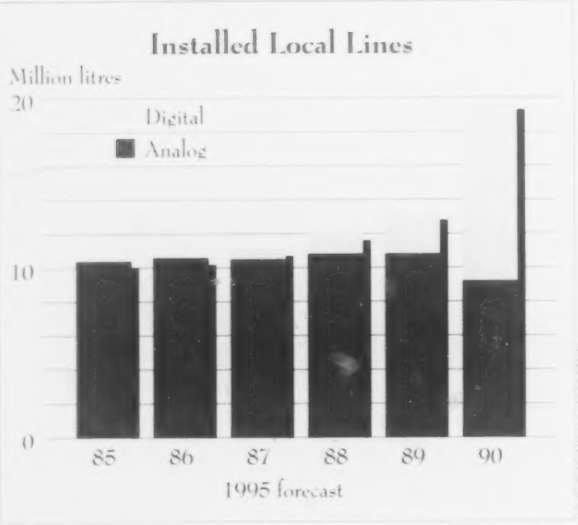
The recent boom in demand, coupled with the backward state of the telecom services in Spain, has resulted in spectacular growth in the telecom market in Spain.

The Boom Brought Short-Lived Benefits to Suppliers

The decade-long recession which lasted until 1986 caused demand to stagnate and Telefónica to put off much needed investment to upgrade and modernise the telephone network. At the same time, the newer electronic equipment required a less labor-intensive manufacturing process than older products, which forced suppliers to cut back their labor force at great expense.

The result of these two factors was a period of intense restructuring and major losses for the main telecom equipment suppliers during the early 80's. In the meantime, a wave of liberalisation was sweeping Europe's PTT's at the same time as new telecom products and services were appearing in the marketplace. And the strength of the economic boom in Spain caught everybody off guard.

The latent demand pent up during the recession caused an explosion in the demand for new telephone lines and terminals. This forced Telefónica to drastically increase its investment programme and its orders to suppliers who had to substantially increase their capacity to satisfy the sudden surge in demand.



SOURCE: FLEMING CONSULTANTS

In spite of this buoyant situation, the major suppliers saw that the benefits to them of the long-awaited recovery could be short lived because of four factors:

(a) The administration introduced a partial deregulation of the sector which brought more competition.

(b) EC membership in 1986 began a period of lower import tariffs and the removal of quotas which has produced a flood of imported products.

(c) Telefónica abandoned its long term investment planning to concentrate instead on yearly investment programmes, which made it impossible for suppliers to plan ahead and

(d) a third switching equipment manufacturer, AT&T, set up in Spain to supply Telefónica's growing needs.

As all these new competitive forces reach their maximum intensity around 1992, demand has already started to level off, and lower profit margins are indicated for these suppliers. Already, all are busy scouting export markets for their products.

Local Lines Installed

The installation of digital local lines has been doubled each year and from 1989 on nearly 98 percent of all additional local lines will be digital.

The penetration of digital local lines has been rapidly increasing and reached 28.4 percent by the end of 1990.

The number of analog local lines, which peaked in 1988, is expected to fall by an average of 300,000 lines per year. At this rate, it will 25 years before this technology disappears from the network.

The upgrading of the trunk network to digital is receiving most of the attention with the rapid digitalization of the system. The current realistic target within Telefónica is to achieve 82 percent digitalization of the trunk by the year 1994.

Forecast Growth In the Market

Nineteen ninety marked the first year of Telefónica's five year investment program for the period of 1990–1994. The targets as set out by Telefónica are.

- Additionally, of 7.8 million local lines of which 98 percent will be digital lines. By taking 200-300,000 analog lines out of service each year, it is expected that 56 percent of the local network will be digital by 1995. The number of lines per 100 inhabitants in Spain will go from 31 lines per 100 inhabitants in 1990 to 40 lines per 100 inhabitants in 1994.
- The addition of 2.8 million trunk circuits, all 100 percent digital which will bring to 82 percent the digitalization of the trunk network by 1994.
- The investment program represents a slowdown in the pace of the installation of new lines. Having peaked in 1990 at 3 million new lines, the rate of installation of new lines is expected to fall to 2 million in 1992 and 1.5 million by the year 1994. Ω

JOHN FLEMING *runs Fleming Consultants, an industrial market research outfit based in Madrid that monitors the major Spanish industry sectors and advises foreign companies on getting started in the Spanish market.*

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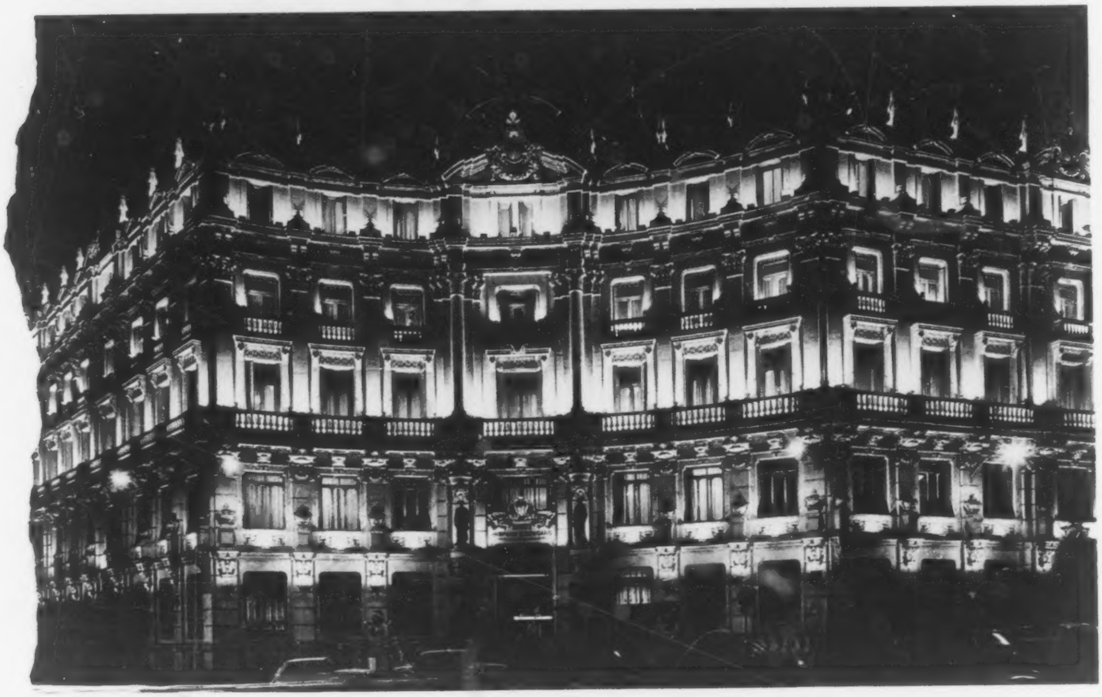

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Euro-American Business Communites Need GATT

Creating a Cross-Atlantic alliance in support of trade is an imperative

BY JAMES D. ROBINSON III

Over the past forty-five years, world trade in goods has grown from roughly $60 billion in 1947 to $3.5 trillion today; beyond that, world trade in services is approaching $1 trillion. A major driving force in this growth has been trade liberalization. For example, through seven rounds of GATT negotiations, tariffs on manufactured goods in the industrialized countries fell from an average of 40 percent in 1947 to less than 5 percent today.

Trade between the U.S. and Europe is also large, growing, and today almost in perfect balance. Last year, U.S. exports of goods to Western Europe were $111 billion, while private services exports were $42 billion. European exports as a whole to the U.S. were roughly equal—that's what makes for a good trade relationship. As to a few details, the U.S. ran a slight surplus with Europe in both goods and services. Over one-quarter of U.S. goods exports went to Europe last year, as did over one-third of our private service exports. The U.S. imported similar shares of EC output: 22 percent of U.S. goods imports came from Europe, and 41 percent of our services imports.

Given the magnitude of the American and European trading relationship, communications on trade issues between our business communities—like communication between the U.S. government and the EC—must be regular, active, and clear. Cooperation on trade liberalization is certainly in the interest of the business communities on both sides of the Atlantic.

As we all know, the current round of the GATT talks, or the Uruguay Round, collapsed in Brussels last December. The breakdown of the talks centered on agriculture, although there were other areas of disagreement, such as services.

> **The U.S. business community strongly supported the Uruguay Round of GATT talks during the fast-track debate in Congress**

Protection of domestic agricultural markets—in the form of price supports, export subsidies and import restrictions—has grown substantially over recent decades. Almost 90 percent of all food imports in the developed world are now subject to such barriers, compared to 35 percent in 1966. That's why free and fair trade in agriculture is the highest priority for many negotiators in the Round.

Developing countries, plus major agricultural-exporting industrial countries like Canada, Australia, and the U.S., pushed strongly in the GATT negotiations for deep cuts in farm subsidies, especially export subsidies.

The EC, Japan, and Korea resisted these pressures. The Brussels Ministerial talks last December failed to break this deadlock despite the high cost of agricultural policies for the industrial countries themselves — estimated to be $100 billion in the form of higher prices and higher taxes in Europe alone. Unable to reach agreement on agriculture, the GATT negotiations were suspended.

Fortunately, there's some reason for hope. Great attention was focused on every move of the European community this spring as it worked to establish its agricultural price package. Signs that the EC is willing to move beyond its prior proposal of a 30 percent cut in subsidies are promising and have allowed some forward movement.

The true test, however, remains in the reform of the common agricultural policy, and the jury is still out on that element of the community's farm reform.

The other critical issue that must be resolved satisfactorily is services. Services should be a central feature of the Round for all industrial countries — the U.S., the EC and Japan. All our economies are predominantly services-based. They are not driven by farm production — as important as that might be. In none of these countries are the majority of workers employed in manufacturing, as important as goods production is to all three economies. Services employment dominates the economies in all three countries.

But you would not know it from the current state of services negotiations in the Uruguay Round. Fundamental decisions have yet to be made in shaping a services framework agreement. Nor have the negotiators begun to grapple earnestly with liberalizing commitments from signatory countries. Although we do not expect immediate, total liberalization, the U.S. does seek a services agreement which liberalizes important sectors of trade in services now — not ten years from now.

Without significant progress in agricultural and services — as well as in other important areas such as intellectual property and market access — it is hard to see how the U.S. would approve the final package.

Nonetheless, the U.S. is committed to substantive negotiations.

A serious hurdle to the Uruguay Round was recently cleared here in the U.S. In a hard-fought effort, Congress approved the extension of a procedure called "fast-track," thereby providing President Bush with two more years of trade negotiating authority.

The battle over fast track was fierce. Those import-sensitive U.S. industries that oppose the Uruguay Round were urging the congress to vote "no" on extension. So did labor and some environmental groups opposed to the North American Free Trade Agreement (FTA). After getting its act together, the U.S. business community lobbied hard to tell the congress why both the GATT agreement and the North American FTA are critical to prospects for the economic growth in the U.S. Fortunately, we were successful.

Now that extension of fast-track has been achieved, negotiators can move into high gear to remove all the remaining obstacles to a successful final agreement. As I have already indicated, closing the gap in agriculture and services will not be easy. It will require a great deal of political will. And sharp disagreements need to be resolved over the details of draft texts on tariffs, non-tariff barriers, services, textiles, intellectual property, and other key areas. For example, the services text contains more than 200 bracketed paragraphs to be negotiated — many more than the paragraphs already agreed to.

No one is prepared to commit to a specific deadline for ending the round. But the hope is to complete the negotiations by the end of this year or early 1992 — in advance of the elections in Canada and the U.S. and before the new commission takes over in Brussels at the end of 1992. So time is short and the task significant.

The business communities on both sides of the Atlantic need to throw all of their energies into the round to make it a success. There is a good reason to do so. It's been estimated that a successful round will result in over a $5 trillion incremental gain in world-wide growth for this decade alone.

The U.S. business community came out in force to show its support for the Uruguay Round during the fast-track debate in Congress. Now it is time for European business to show its will in a similar way. Although there is no fast-track debate in the EC, European manufacturers, service companies and financial institutions should be lobbying EC officials, as well as their home governments, for changes in farm policy that will allow liberalization to proceed in all other areas.

More of this must be done — and done soon. This task requires large scale, continuous attention. For our part, I can assure you that the U.S. business community is keeping the pressure on the U.S. Ω

JAMES D. ROBINSON III *is Chairman and CEO of American Express. These comments were expressed during a speech on June 25th at the European-American Chamber of Commerce, a New York-based trade organization consisting of eleven European bilateral chambers of commerce.*

Single Market Enters Home Stretch

With the December 31, 1992, deadline rapidly approaching, the commission has released its sixth annual progress report on the single market. While only 89 of the 282 proposals in the 1985 white paper still require adoption by the council, the report warns that the council's productivity on single market legislation has increased considerably over the past six months (only 11 directives have been adopted since November 1990), and that there are still some serious delays in key areas. Legislative delays in the European Parliament on some 35 items have contributed to the slowdown.

As in previous reports, the commission points out that the member states are still behind in transposing adopted EC measures into national law, but the average rate of transportation has improved to 72 percent from 67 percent in December 1990. This improvement stems primarily from the successful efforts of France and Greece to raise their transportation rates in the first half of 1991. Italy continues to lag with a paltry 50 percent implementation rate.

The report lauds the progress made in defining the value-added tax (VAT) and excise duty regimes arising from the abolition of internal border controls, and notes some improvement in the animal and plant health sectors (although 28 directives in these areas are still outstanding). Apart from these achievements, however, many dossiers are still blocked and need a new impetus.

Notwithstanding the recent adoption of the computer software directive, intellectual property has seen little movement, mainly for political reasons. For example, the Community trademark remains nonexistent because the member-states cannot decide on a location for the trademark office or on the number of working languages. Further, the EC patent convention still requires the ratification of some member-states.

Despite the progress made in the air transport sector, the sea, inland waterway and road transport fields still require decisions to ensure the freedom to supply services throughout the EC. The investment services directive, a cornerstone for a single market in financial services, remains blocked at the council level and the 13th company law on takeovers has been delayed by the European Parliament. In addition, greater efforts are necessary in the areas of the free movement of persons, the European Company Statute and several direct taxation directives (e.g. the abolition of withholding tax on interest and royalty payments) to meet the deadline.

Source: Eurocom, *August 1991.*

General Trade Information

(As part of The Business Link's continuing efforts to keep our readers informed about U.S.-Spain trade regulations, we are publishing this access-to-information directory, listing both government and private facts and contacts.— Editor)

Duty Rates

Spain joined the European Community (EC) on January 1, 1986. Under the terms of its Treaty of Accession, Spain must align its tariffs with those of the EC over a seven-year period to be completed on January 1, 1993. Reductions range from 10 to 15 percent annually. As on January 1, 1990, these reductions totaled 65.0 percent.

For specific duty rates, trade regulations, and documentation requirements for exports to Spain and the EC contact:

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Valued Added Tax (VAT)

Under the terms of Spain's Treaty of Accession to the EC, Spain was obligated to institute the VAT, except in the Canary Islands and the African territories of Ceuta and Melilla. There are three rates: 1) a general rate of 12 percent levied for most goods and services; 2) a reduced rate of 6 percent for food products, medicines, books and printed matter, non-exempt education, and municipal transport; and 3) a 33 percent rate for cars and recreational vehicles, jewelry and luxury furs. Health care, education, investment, exports, and new artwork are exempt from the VAT.

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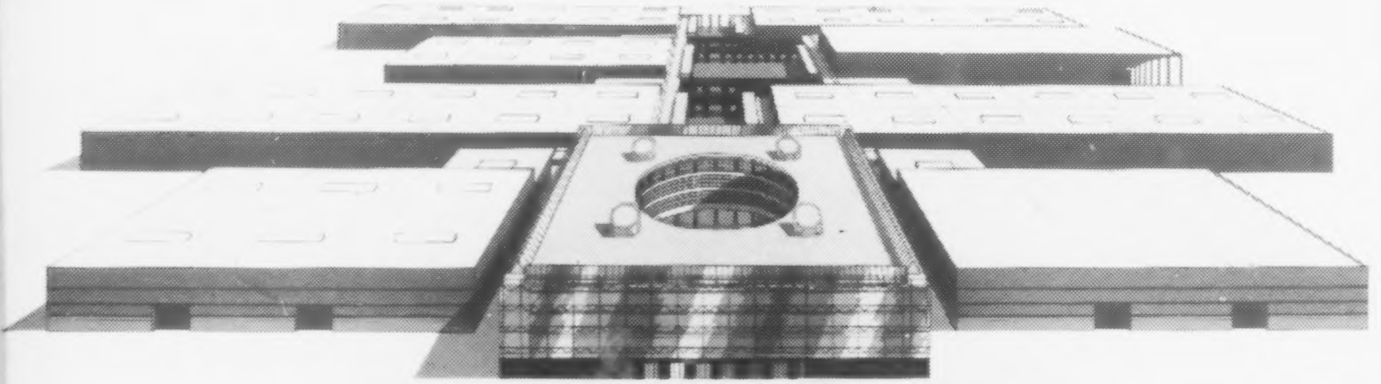

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Arbitration Comes of Age

A new law has removed most of the impediments to resolving commercial disputes in Spain

BY STEVE KAHANER

An understanding of arbitration is necessary for every person doing business abroad and for all foreign businesses operating in the United States. Commercial arbitration is a mechanism whereby two or more parties submit contract disputes to the final decision of one or more impartial persons. This private procedure is useful because it allows parties to avoid the complexities, expense, loss of confidentiality and delay of court proceedings. Commercial arbitration is perceived to be especially advantageous for resolving disputes in international trade and business, as business parties tend to be wary of foreign laws and a possible bias of local courts in favor of domestic parties.

There are two main types of commercial arbitration: institutional and ad hoc.

Institutional arbitration takes place when the arbitration proceedings are administered by an organization, usually in accordance with the particular rules of that organization. One principal advantage of institutional arbitration is the fact that parties can incorporate the institution's rules by reference in an international contract.

These rules normally represent proven procedures drafted by professionals in the commercial arena. In addition, arbitral institutions usually maintain lists of arbitrators who are fluent in the language of the arbitration and have experience in the field of the dispute, have set fees (thus sparing parties the burden of negotiating the arbitrators' fees) and act as an administrative "referee" to ensure the independence of arbitrators.

Ad hoc arbitration occurs when there is no formal administration of the arbitration by a named arbitral institution. Ad hoc arbitration may be more flexible than institutional arbitration because it can be shaped to meet the particular circumstances of the parties and the dispute, normally eliminating the costs and sometimes cumbersome procedures of arbitral institutions. However, successful resolution of a dispute without court interference under ad hoc arbitration is often much more dependent upon the cooperation of the parties, their counsel, and the arbitrators.

Millions of contracts, insurance policies, leases, franchise agreements and other business and personal arrangements include arbitration clauses

In the United States, private commercial arbitration has gained widespread acceptance since the first modern arbitration laws were passed in the 1920s. Today, millions of contracts, insurance policies, leases, franchise agreements and other business and personal arrangements include arbitration clauses, and many thousands of cases are arbitrated each year.

In contrast, Spanish law until recently has made it virtually impossible to conduct arbitration (especially institutional arbitration) in Spain, due to the antiquated and impractical provisions of the Arbitration Act of 22 December 1953 (the 1953 Act), which was passed at a time when arbitration was viewed with hostility by legislators who were intent on defending the judicial monopoly of the state.

Fortunately, this situation has changed with the passage of Law 36/1988 of 5 December 1988 (the 1988 Act). The 1988 Act has removed most of the impediments to conducting arbitration in Spain and has legitimized, even favored, institutional arbitration as a viable means of dispute resolution.

The Arbitration Agreement

One of the major obstacles to arbitration under the 1953 Act was the Act's prohibition of agreements to arbitrate disputes which arose in the future. In order to arbitrate under the 1953 Act, two agreements were necessary: a preliminary arbitration clause, which could be agreed to at the time of contract; and the actual submission to arbitration, which could only be made at the time a dispute arose. Thus, one party to a contract could refuse to submit to arbitration once a dispute arose, and the opposing party would be forced to go to the courts in order to enforce its right to arbitrate.

Unlike the 1953 Act, the 1988 Act eliminates the distinction between the preliminary arbitration clause and the subsequent submission to arbitrate. A written arbitration clause expressing the unequivocal will of the parties to submit to arbitration and to comply with the eventual decision of the arbitrators is all that is necessary to commence proceedings once the arbitrators have notified the parties of their acceptance of the arbitration.

Institutional vs. Ad Hoc Arbitration

Another departure from the norms of the previous law is the 1988 Act's express provision for the appointment of arbitrators and the administration of the arbitration by third parties such as pub-

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lic law institutions and non-profit associations. This provision is one of the main ingredients necessary for the effective implementation of arbitration in Spain, because specialized organizations such as the Spanish Court of Arbitration (discussed below) and the various chambers of commerce are usually best prepared to handle and simplify the mechanisms of arbitration.

However, the 1988 Act not only allows institutional arbitration, but the language of the Act actually creates a preference for institutional arbitration over ad hoc arbitration. This is because the 1988 Act does not provide for judicial assistance in initiating the arbitration or replacing arbitrators if some or all of the arbitrators chosen in an ad hoc arbitration do not accept their appointment, withdraw, or become incapacitated from rendering an award. A recalcitrant party can therefore force the dispute into the courts by refusing to appoint a new arbitrator.

On the other hand, if the parties have submitted to institutional arbitration, the institution itself may decide matters relating to the withdrawal or incapacitation of the arbitrators. Therefore, in light of current Spanish law, prudence dictates the use of institutional arbitration over ad hoc arbitration at this time.

International Commercial Arbitration in Spain

The principal arbitral institution in Spain active in the field of international commercial arbitration is the Spanish Court of Arbitration (La Corte Española de Arbitraje), created by Royal Decree 1094 in 1981. The Spanish Court of Arbitration, located in Madrid, administers international commercial arbitration in accordance with the Arbitration Rules of the United Nations Commission on International Trade Law (UNCITRAL), without prejudice to other rules which parties may choose in its place. The recommended arbitration clause of the Spanish Court of Arbitration reads as follows:

> Any disputes arising from the interpretation or execution of the present contract will be definitively resolved through arbitration by one or more arbitrators within the framework of the Spanish Court of Arbitration in accordance with its Statutes and the UNCITRAL Rules.

Parties are also free to use other rules of arbitration, such as those of the American Arbitration Association or the International Chamber of Commerce. The Charter of the Court, Royal Decree 1094, the UNCITRAL Rules, A schedule of fees and model arbitration clauses can be obtained from the Court by sending a request to: La Corte Española de Arbitraje, Claudio Coello, 19, 28001 Madrid, Spain.

As a result of the new Arbitration Act, the various chambers of commerce of the Spanish provinces are also forming arbitration tribunals. For example, the Madrid Chamber of Commerce and Industry has recently established the Court of Arbitration of Madrid, which can carry out both domestic and international arbitrations. The address of the Court of Arbitration of Madrid is: C/ Huertas, 11-2º, 28012 Madrid, Spain.

Domestic Arbitral Awards

Despite the international character of awards which may be issued by the above-mentioned courts of arbitration, such awards are considered domestic awards under the 1988 Act, and must be enforced accordingly. This is because the 1988 Act defines a foreign award as one which has not been rendered in Spain.

Domestic awards are executed by the Court of First Instance of the place where the award was rendered, according to the rules of the Code of Civil Procedure for the execution of final court judgments.

Foreign Arbitral Awards

The 1988 Act provides that the execution of foreign arbitral awards is governed by the terms of international treaties or, in the absence of such treaties, pursuant to the provisions of the Act. As mentioned earlier, a foreign award is defined as any award which has not been rendered in Spain. Spain is a member of numerous bilateral and multilateral treaties regarding the enforcement of foreign arbitral awards, the most significant of which is the 1958 Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the New York Convention). Foreign awards which a U.S. party wishes to have recognized and enforced in Spain will be subject to the criteria of the New York Convention.

In order to enforce a foreign award, a party must solicit its execution before the Civil Chamber of the Supreme Court. Execution of the award is performed in the same manner as the execution of foreign court judgments. Pursuant to the New York Convention, recognition and enforcement of the award may only be denied if the defendant proves that:

(1) the parties were not legally capable of entering into the arbitration agreement or the agreement was invalid based on the applicable law;

(2) a party was not duly notified of the proceedings or was unable to assert a defence;

(3) the award is beyond the bounds of the arbitration agreement;

(4) the arbitral tribunal was not duly constituted pursuant to the agreement or the laws of the country where the arbitration was held;

(5) the award is not yet binding on the parties or has been annulled or suspended;

(6) the subject matter of the dispute is not capable of settlement under the law of the enforcing country; and

(7) recognition or enforcement of the award would be contrary to the public policy of the enforcing country.

The Spanish Supreme Court has consistently affirmed that the defenses set forth in the New York Convention are the only defenses available to a party opposing enforcement of a foreign arbitral award in Spain, and the Supreme Court has construed these defenses narrowly.

The relatively modern provisions of the 1988 Act, along with the liberal interpretations given to the New York Convention by the Spanish Supreme Court, combine to assure U.S. parties who enter into arbitration agreements with Spaniards that in most cases a judgment in their favor will be enforced, whether the arbitration takes place in Spain or elsewhere. Ω

STEVEN KAHANER, *formerly a foreign associate with the law firm of J. y B. Cremades in Madrid, is now an associate with the law firm of Reid & Priest in New York.*

Iberia Takes Venezuelan Stake

Iberia Airlines recently took over the management control of the Venezuelan flag carrier, Viasa. According to the *Financial Times* of London, Iberia bought a 45 percent stake and its local partner, the Banco Provincial group, bought a further 15 percent, for a total of $145 million. This year the Spanish airline has acquired management control of Aerolineas Argentinas and the Chilean Ladeco.

Iberia also wants to buy a percentage of Chile's main carrier, Lan, as well as the Dominican carrier Dominicana de Aviación. These acquisitions in South America reflect the interest among the Spanish public sector for privatized assets in this continent. Ω

Miguel Jordana Returns To Spain

After being in New York for more than four years, Mr. Jordana has returned to a new assignment at the J. & A. Garrigues offices in Madrid. His position in New York has been taken over Mr. José Ramon F. Villar. Ω

St. Regis Reopens in New York

New York City's famous St. Regis hotel, originally built in 1904 by John Jacob Astor, has reopened after a three-year restoration costing more than $100 million. ITT Sheraton, which owns and operates the New York landmark building, realized the importance of restoring this historic hotel in such a major world capital. With 363 rooms, the St. Regis is located on 55th Street at Fifth Avenue and is part of Boston-based ITT Sheraton Corporation's network of nearly 500 hotels. Ω

Spain to Overtake UK in Advertising

Spain is set to overtake the UK and France to become the second largest advertising market in Europe, according to a forecast published by Carat International. As reported in *International Media*, Spain's ad revenue will grow by 20.6 percent this year and another 17.6 percent in 1992. This implies a total revenue of $10,926 million in 1992, up from $7,700 million in 1990.

This compares with a projected $9,578 million in the UK, and a $9,376 million in France. Germany is still in the lead with $12.136 millon in projected revenues by 1992, up from $10,850 in 1990.

The fastest growing medium in Spain is TV, which will increase its revenue by 25 percent this year. Ω

New Director at Banco Exterior de España

Mr. Iñigo de la Sota has been appointed the new director of the Banco Exterior de España in New York. He is taking over from Mr. Marcial Portela, who is going back to Madrid as Manager Director for the Banco Exterior de España. Mr. de la Sota has worked in the United States for five years. Ω

Barcelona's Consorcio Promotes Technology Transfer in Spain

The Consorcio de la Zona Franca de Barcelona, through its Barcelona Development Agency division, organized the First International Seminar on Technology Transfer held in Barcelona on October 24th and 25th. Experts from the United States and Europe discussed their experiences in their respective countries, and then related these experiences to the reality of today's Spain.

The seminar opened with the Mayor of Barcelona and the Chairman of the Consorcio, Mr. Pasquall Maragall. The keynote speaker at the luncheon was the Honorable Claudio Aranzadi, Minister of Industry of Spain. The American experts participating in the seminar were: Dr. Angel Jordan, ex-Provost of Carnegie Mellon University; Dr. Ray Smilor, executive director of the IC2 Institute, University of Texas at Austin; Dr. Ted Maher, director of the Extension Program at the U.S. Department of Agriculture; Dr. Mark Dibner, director of the Biotechnology Information Division at the North Carolina Biotechnology Center; and Dr. Chris Coburn, director of the Public Technology Program at the Battelle Institute in Columbus, Ohio.

This year, the Consorcio is celebrating its 75th anniversary. Ω

Alliance to Launch its Second Spanish Fund

Alliance Capital Management, a leading U.S. fund management group, plans to launch a Spanish smaller companies mutual fund on the London Stock Exchange. According to the *Financial Times*, the closed-end fund will invest in listed Spanish companies which have market capitalization of about $200 million or less, and where the free float of shares — those which are actively traded — amount to about $100 million or less. Banco Bilbao Vizcaya and Daiwa Europe are jointly responsible for allocating shares to international investors. Alliance Capital already manages the Spain Fund which is listed in New York. Ω

Spain's Sherry Producers Cut Sales

Spain's oldest surviving exporters, the sherry producers of southern Andalucia, are planning to rip out nearly a third of their precious

Profits Up at Banco Central

During the first half of 1991, Banco Central's profits went from 50.29 billion to 63.35 billion pesetas, rising 9.9 percent in comparison to the same period last year. The performance of the bank's various subsidiaries, Banco de Valencia, Banco Gallego and the Cepsa Group, made a major contribution to those results. Banco Central is also in process of merging with Banco Hispano Americano. The Cepsa Group alone posted for the first semester a consolidated pretax earning of 8.83 million pesetas, a 44 percent rise from the previous year.

In the U.S., Central has sought to strengthen its presence by establishing a more aggressive and personal marketing strategy. Mr. Pierre R. Dulin was appointed Vice President and Corporate Manager in the New York branch last summer. Coming from Madrid's main office, he will oversee marketing operations for the bank. Banco Central was ranked among the top 50 foreign banks in the U.S. last September. Ω

Palomino vines in the next few months in an attempt to save themselves from a collapse in sales to the U.K. in the last six years. The 60 families and bodegas that produce sherry around the vineyards of Jerez have all agreed to cut total registered sherry vineyards from 18,000ha to 13,000ha this year. The move reflects a downward trend in overall consumption, particularly in Spain's main market, the U.K., where ten years ago 65 million bottles were sold and today 35 million are sold. Ω

Fundacion Nueva Empresa

Fundacion Nueva Empresa has recently published its "Study for the Implantation of Companies in the Ebro Industrial Corridor" comprising of a book, a bilingual English/Spanish resumé/brochure and a video tape. The publication of this study concludes one of the first projects of the Fundacion, created last year by the Official Chamber of Commerce and Industry of Zaragoza and General Motors España S.A. The study's objective is to encourage economic and cultural development in the region of Aragon. Ω

Tibest Tres Acquires Stake in UK Construction

Tibest Tres of Spain, a civil engineering company jointly owned by Entrecanales and Cubiertas, has recently bought a 21.5 percent stake in Glagow-based Lilly. According to the *Financial Times*, two Cubiertas representatives have been invited to join the ten-member Lilly board. Tibest Tres entered into a standstill arrangement for three years, preventing it from raising its stake in Lilly above 23 percent

Cubiertas is the main contractor on the Garibaile dam as well as various projects for both the Barcelona Olympics and Expo '92 in Seville. Entrecanales' current projects include work on the Large Electron Positron collider for Cern in Geneva. Ω

Banco Santander Issues $200M in Preferred Stock

According to *ABC*, Banco Santander has become the first Spanish bank to issue preferred stock in North America. The capital raised in this transaction will reinforce the bank's core capital as defined by the Bank for International Settlements in Basle, Switzerland.

The issue was arranged by Merrill Lynch and the Goldman Sachs, Lehman Brothers, Kemper Securities and Paine Webber participated in the placement. Ω

Industrial Products Promotion Center Initiates JV Program

The Industrial Products Promotion Center has actively started the follow-up of industrial projects and technology transfer.

The objective is to attract the participation of Spanish companies specialized in construction or the manufacturing of capital goods in projects carried out by American contractors, both in the United States and overseas with emphasis on Latin America.

With already identified projects the task will consist of promoting Spanish companies as suppliers of products and services to the contractor awarded with a project.

At the same time, the Promotion Center will try to identify projects before contractors are nominated, informing both contractors and design companies in Spain of the terms and conditions for participating in such projects.

The Industrial Products Department is compiling a list of companies in Spain that have the technical expertise to participate in such projects and that have expressed interest in being included in such a list. This list will be submitted to the most important American contractors.

In addition, as projects are identified, they are entered into a data base at the Institute for Foreign Trade (ICEX) in Madrid, in order to keep Spanish contractors and designers informed of American business opportunities. Ω

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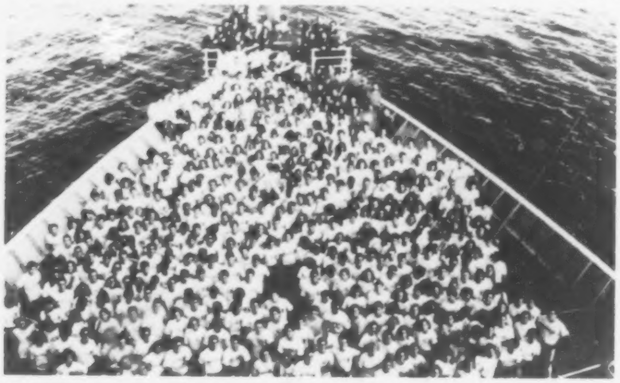
Spain '92 and the Quincentennial Year

Adventure '92 and "Eyes of the Goddess" provide a bright beginning to the Quincentennial Year. During this 12-month period, which runs from Oct. 1991-Oct. 1992, international Quincentennial activity will reach its highest pitch. To ensure that the year gets off to a good start, the Sociedad Estatal Quinto Centenario and the Spain '92 foundation have helped develop an impressive array of Fall events. Activities include cultural and educational projects as well as the departure of the Niña, Pinta and Santa Maria from Palos de la Frontera on Oct. 12, 1991.

Adventure '92

Adventure '92 is one of the Quincentennial's most important educational programs. This year 500 students from all over the world have embarked on an exciting voyage of discovery and encounter aboard the "floating school" Guanahanl.



The Quincentennial's floating school.

The young students (ages 16-17) are taking part in a rich and varied program which includes: challenging courses designed by Madrid's Universidad Complutense, Pre-Columbian-style sporting events, cultural exchanges, and trips up the Amazon.

The four previous editions of Adventure '92 traced Columbus's voyage to the New World. This year students left Huelva, Spain, on Sept. 16 to follow the course of Vicenic Yañez Pinzón, who in 1500 explored the Brazilian coast and the mouth of the Amazon. Stops include the Dominican Republic, Venezuela and Brazil.

Two special features of the 1991 edition help mark the beginning of the Quincentennial Year: 1) the Guanahanl will meet up with the Niña, Pinta and Santa Maria in the Canary Islands before its return to Spain at the end of October; and 2) the program has been expanded to include all of the countries which make up the International Conference of Official Quincentennial Commissions. As a result, the ten U.S. students are sharing their great adventure with Ibero-Americans, Europeans, Asians, and Pacific Islanders.

The 1991 U.S. selection process was handled by the Spain '92 Foundation and the National Hispanic Quincentennial Commission in collaboration with the National Council of La Raza's Project EXCEL. The selection process and routes for subsequent editions of Adventure '92 are currently under development.

Adventure '92 students enjoy a Pre-Columbian style event.

Supported by the Banco Español de Crédito (Banesto), the project's Exclusive Sponsor, Adventure '92 has earned UNESCO's official recognition and forms a vital part of Spain's worldwide Quincentennial program.

Eyes of the Goddess

Hundreds of high-quality cultural events will take place throughout the Quincentennial Year. One of the most important, the Martha Graham Center of Contemporary Dance's ballet, "Eyes of the Goddess," got the year off to a good start with its Oct. 8th, 1991, premiere at the New York City Center.

Commissioned by the Sociedad Estatal Quinto Centenario and the Spain '92 foundation, "Eyes of the Goddess" represents Martha Graham's last work. The renowned choreographer spent her last months working on the ballet and had completed about 15 minutes of it before her death on April 1, 1991. Even unfinished, the production remains a tribute to her creative genius.

Using music by Catalan composer Carlos Surinach, "Eyes of the Goddess" was envisioned as a study of the transmigration of the eternal goddess figure from the Old World to the New. In a highly appropriate Quincentennial connection, the ballet symbolized for Martha Graham "the terror of discovery and the fear of searching for the unknown."

"Eyes of the Goddess" was accompanied in its New York premiere by "Appalachian Spring," Mikhail Baryshnikov in "El Penitente," and the "Maple Leaf Rag." Following the performance, a gala dinner was held at the Plaza Hotel, with Jaqueline Onassis as the President of Honor.

A highlight of the Quincentennial in the U.S., "Eyes of the Goddess" is also expected to be performed at the Universal Expo in Seville in June of 1992. Subsequently, the production will tour throughout Europe. Ω

JOHN-MARSHALL KLEIN *is employed by the Spain '92 Foundation, a U.S. non-profit organization founded by the Spanish government to promote and coordinate the Quincentennial.*

Expo '92 Sponsor Update

A number of leading national and global corporations have joined the United States Pavilion as sponsors and donors since our last report in the summer issue of *The Business Link*. Their support of this critical international event will not only enhance and add prestige to our national presence at Expo '92, but will give them exposure to over 8 million visitors expected at the pavilion during the six-month exposition. The U.S pavilion offers venues for many different types of participation, including Pavilion Trust members, exhibitors, or donors of goods and services.

American International Group, Inc. has made a challenge pledge of $500,000 to be the first of five co-sponsors to underwrite the Bill of Rights Exhibit. *(See Bill of Rights article on the next page).*

American Trucking Associations (ATA) has graciously agreed to obtain the domestic trucking needed by the Pavilion from its member companies. The ATA federation includes more than 4,100 motor carriers and suppliers, members, and affiliated associations in every state. We are grateful to Carolina Freight Carriers and Commercial Carriers Corporation, both of North Carolina, for handling our first trucking assignments.

Beaulieu of America, the second largest carpet manufacturer in the U.S., will provide its fine-quality carpeting for the U.S. Pavilion's VIP reception rooms and the administration areas. Beaulieu is part of the international Beaulieu Group of Companies, largest carpet manufacturers in Europe, with factories there as well as in Australia, South Africa and Canada.

DHL Worldwide Express joins the U.S. Pavilion Trust as a donor with their cash donation and an in-kind contribution of overnight express delivery service. DHL, which has an extensive business network and offices throughout Europe, will also provide a much needed service by opening a "DHL Express Center" on the pavilion site.

Fitz and Floyd, manufacturers of hand-painted giftware and decorative accessories, will create and donate the china and accessories to be used at the U.S. Pavilion, as well as presentation gifts for VIP guests and heads of state. Fitz and Floyd also lends its support as a member of the U.S. Pavilion Trust and of the Design Team.

Kansas City is the first city to join the Pavilion, in celebration of its sister-city relationship with Seville and of its trade and tourism potential. Through holograms and hi-tech visual illusions, the Kansas City Exhibit will explore the city's western and prairie heritage, and its famous personalities, such as Jesse James, Harry Truman and Ernest Hemingway.

Warnaco Inc., a Fortune 500 company, is donating the uniforms for the pavilion guides and protocol assistants. Designs for these will be especially created by Warnaco's Hathaway group, ensuring an image of casual elegance and style. Ω

President Bush Receives U.S. Pavilion Sponsors

A very successful series of events brought to Washington, D.C. almost all the sponsors of the United States Pavilion at Seville Expo '92 on June 20th. The highlight of the day was a visit to President Bush in the Oval Office. USIA Director Henry E. Catto and U.S. Commissioner General Frederick Bush joined the President and Vice-President Quayle (see photo) in thanking the sponsors for their leadership role in this unique public-private partnership. Ω

(From left) Frederick M. Bush, U.S. Commissioner General, Seville Expo '92; Vice President Quayle; Robert Scavone, Vice President Finance and Planning, Atlantic Division, Sea-Land Service, Inc.; Robert W. MacGregor, Chairman, Kansas City/Seville Expo '92 ; President George Bush; Paolo Guidi, President, Sprint International; Tommaso Zanzotto, President, American Express Travel Related Services, Inc.; Walter H. Dunn, Vice President, Prestige Accounts, The Coca Cola Company; Kenneth R. Marvel, Chairman and CEO, Fitz and Floyd; Bruce E. Thompson, Jr., Vice President, Director of Governmental Affairs, Merrill Lynch & Co., Inc.; James Fitzpatrick, Vice President, Communication and Marketing Staff, General Motors Corporation.

The U.S. Pavilion Design Team

Among the many contributors to U.S. Pavilion is the U.S. Design Team, composed of companies that have provided goods and services for use in representational areas of the Pavilion, consular offices and official residence. Over fifty heads of state as well as countless leaders are expected to visit Expo '92 and many of them will come to the U.S. Pavilion. The contributions of the Design Team will represent American taste and quality and lend prestige and grace to United States Pavilion receptions. These companies include Allied Signal Inc., Baldwin Piano & Organ Company, Century

Furniture, Fitz and Floyd, Inscribe Inc., Lascaris Design International, Lunt Silversmiths, Oneida Crystal, Wildwood Lamps and Wunda Weave Carpets. Ω

Pavilion Sponsors Announced at Press Briefing

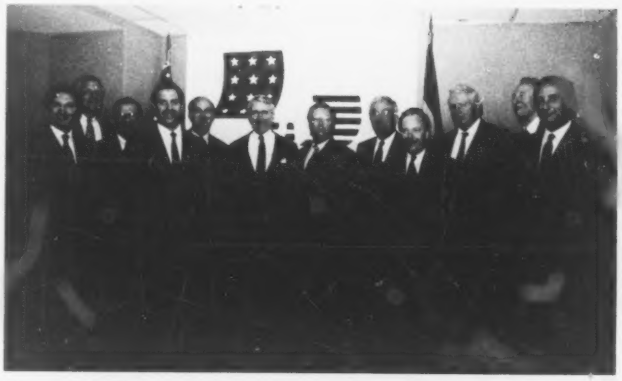
The visit to the White House was followed by a press event to announce eight U.S. corporations as official sponsors of the U.S. Pavilion. They included American Express Travel Related Services, Coca-Cola, General Motors, Merrill Lynch, Sea-Land Service Inc., and Sprint. In addition, the American Plywood Association and Kansas City will create exhibits while the National Aeronautics and Space Administration (NASA) has joined as a Trust member. *(See article in our Summer issue).*

USIA'S new director, Henry E. Catto, just returned from his position as Ambassador to the United Kingdom, embraced the project as his top priority and a "unique opportunity for corporate America to establish a beachhead in the European Community."

Joining Ambassador Catto at the media briefing were Secretary of Commerce Robert Mosbacher, U.S. Commissioner General Frederick M. Bush, and Spain's Ambassador to the U.S., Don Jaime de Ojeda. Referring to the Seville Expo as a unique and important opportunity for the nations of the world to see what's going on in one another's countries, Secretary Mosbacher added, "we in the United States are extremely proud of what the private sector is doing". Ω

Spanish Ambassador Hosts Luncheon for Sponsors

The day's events were topped off by an elegant formal luncheon hosted by his Excellency Don Jaime de Ojeda in honor of the announced Pavilion sponsors and a number of interested corporations and organizations. In the setting of the beautiful residence in Washington, D.C., with an indoor courtyard modelled after a Spanish patio, with fountains, palm trees and Andalucia's famous "azulejos," the legendary hand-painted tiles of southern Spain, sponsors met each other, members of the Spain-USA Chamber of Commerce and officials from the White House, USIA,the Departments of State, Commerce and the Navy. Toasting his guests, Ambassador Ojeda stressed the importance of America's influence in the global economic marketplace, adding "U.S. business and technology continue to represent leadership in these fields in the world." Ω



(From left) Tommaso Zanzotto, President, American Express Travel Related Services, Inc.; Robert W. MacGregor, Chairman, Kansas City/Seville Expo '92; James Fitzpatrick, Vice President, Communication and Marketing Staff, General Motors Corporation; Robert Scavone, Vice President Finance and Planning, Atlantic Division, Sea-Land Service, Inc.; Frederick M. Bush, U.S. Commissioner General, Seville Expo '92; Henry E, Catto, Director, U.S.I.A.; Ambassador Jaime de Ojeda, Ambassador of Spain; Eugene P. Kopp, Deputy Director at USIA; Kenneth R. Marvel, Chairman and CEO, Fitz and Floyd; Walter H. Dunn, Vice President, Prestige Accounts, The Coca Cola Company; Kenneth Crosby, Diplomatic Liaison, Merrill Lynch & Co., Inc.; Paolo Guidi, President, Sprint International.

Bringing the Bill of Rights To the World!

As barriers to freedom are falling around the world and more and more countries look to the United States and its democratic system, our Bill of Rights stands as the symbol of our individual liberties and our freedom to dissent, to dream and to discover. Now, we have an opportunity to showcase this treasured national document at the largest international event ever held — the 1992 Universal Exposition in Seville, Spain.

The Philip Morris Companies, Inc. have generously agreed to donate their state-of-the-art, multi-media Bill of Rights exhibit for display in the United States Pavilion. The exhibit will go to Seville following completion of its 50-state bicentennial tour in December. Virginia's original copy of the Bill of Rights, on loan from the State Library and Archives, is featured in the domestic tour.

USIA'S mission is to tell America's story to the world: who we are, how we live, and perhaps most importantly, what we believe in. What better way to tell that story than through the Bill of Rights exhibit in the United States Pavilion? And yet, an original copy of the Bill of Rights has never before been exhibited outside the United States!

The Pavilion is grateful to Mr. Maurice Greenberg, CEO of the American International Group, Inc., for his challenge pledge of $500,000 to be matched by four other co-sponsors of this important exhibit. The Bill of Rights exhibit is about ideas — powerful, persuasive, and poetic — ideas incorporated in a document whose relative brevity and simplicity understate its importance to our country and to the world. Ω

For information on sponsorship opportunities in the Pavilion, please contact Betsy Tyson, Director of Private Sector Participation, at (202) 401-7162.

ROSE-ANNE BARTHOLOMEW *works for the United States Information Agency in the office of the U.S. Commissioner for Seville Expo'92 and is responsible for corporate relations.*

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A U.S. First for Spanish Real Estate Development

Banco Santander's building in Manhattan will combine pioneering frame design with architectural elegance

BY MARCELINO MOLDES

Centrally located in midtown Manhattan at 43-49 East 53rd Street between Madison and Park avenues, the Banco Santander Edificio España will be the first construction project financed by a major Spanish company. The Madrid-based Banco Santander's bold real estate endeavor will culminate in a 110,000 square foot, twenty-story office building that uses pioneering architectural design: a free-column steel frame built on poured concrete over an 80,000 square foot steel deck foundation area.

The building's construction will be completed in early 1992, replacing the present 70-year-old Safa Building, purchased by Banco Santander in 1988, who deemed it less expensive to demolish than to renovate. The Manhattan-based development team members include architects Rogers, Burgun, Shahine & Deschler Inc., and consulting architects Clark, Tribble Harris & Li, with collaboration from the office of Jefatura Central de Inmuebles of Banco Santander and from Gonzalo Echenique and Alfonso Millanes, architects from the bank.

The architectural challenge faced by the designers and developers was to respond to the elegant yet corporate architectural style that prevails in this high-rent neighborhood. The Banco Santander building will be in the distinguished company of such structures as the Helmsley Palace, St. Patrick's Cathedral, Park Plaza and the Lever House, one of New York's finest buildings, designed by Gordon Bunshaft. Mies Van Der Rohe's Seagram Building and McKim Mead & White's turn-of-the-century New York Racquet Club are nearby standard-setting structures.

The impressive design features include a 4000-square foot granite-floor lobby, which has four state-of-the-art electrically operated passenger elevators. The final interior finishes for the lobby wall, ceilings, and office units have not yet been determined. The central portion of the east facade, facing Park avenue and overlooking the low-rise base of the Lever House, will curve upwards with a four-story stainless steel decorative circle near the top beneath the mast. The final square foot spacing and mechanical system for the commercial banking center is based in separate units on each floor, providing each tenant with direct control over heating, air conditioning and sources of electricity.

Exterior finishes of the new building will consist of a dark and light gray granite, gray-green tinted glass, clear anodized aluminum, a ground face black, and a 2800 square foot two-story mechanical penthouse topped by a 26 foot high gray duranar-coated steel mansard roof over structure.

The Banco Santander building is an example of an architect's response to the existing standards of aesthetic grace and professionalism that are the noted hallmarks of this high-rent neighborhood. Ω

MARCELINO MOLDES *is a Vice President at the New York City-based architecture firm of Rogers, Burgun, Shahine & Deschler, and project manager for the Banco Santander Building.*

'Wines of Spain' Launches Fifth U.S. Rioja Campaign

Consumer awareness has broadened the U.S. market position of Rioja wines

BY SERGIO ALLARD

October 1, 1991, marked the beginning of the fifth consecutive year for the brand-generic advertising and promotional Rioja campaign in the United States. The campaign consists of advertising in consumer and trade media, tastings in various metropolitan areas, a commercial tour of winemakers which included tastings for customers, seminars for the trade, and meetings with the press, plus production of promotional materials and public relations activities.

Since the start of the Rioja campaigns in September 1987 in the American market, the positioning of the Rioja wines has changed considerably.

The segmentation of the quality still wine market can be simply divided into three parts: (a) the varietal segment, (b) the "good value" segment, and (c) the regional-generic segment.

In the last four years, a collapse of low-priced wines has been evident. A large part of the decline of imported table wines—from fifty million cases in 1984 to a little more than twenty-one million cases in 1990—could be attributed to the decline of the Italian lambruscos and other low-price wine categories.

Wines from Chile, some French regions, Italy, California, and Australia, are competing for the "good value" position which has been traditionally occupied by the red crianzas and young Rioja white wines making this segment more varietal-oriented.

Inspecting the color of Rioja by candlelight.

The regional-generic segment consists of quality wines from wine regions and districts that are highly recognized by the trade and consumers. These include wines from Bordeaux, Burgundy, and Chianti which clearly have a solid position. By contrast, those from Napa, Rioja and Rhine are only marginally known.

Historically, the Rioja wines were perceived as "good value," with a high quality/price relation for various reasons including low production costs relative to the European wine regions. This afforded the Rioja producers an advantage over its competitors because, as the Rioja producers left the marketing in the hands of their importers, the wines were sold based only on low prices.

Over the past few years, however, the position of Rioja wines in the U.S. market has been moving toward the regional-generic market and is more frequently being recognized by the wine region or area among consumers and the trade. Nevertheless, the trade is starting to perceive as "good value" the Rioja reservas and Gran reservas.

There are several reasons for this transitional period in which the Rioja wines are migrating from the "good value" segment and are starting to be recognized as wines from a specific region. One of the goals of the campaign in the U.S. has been to create an image of quality, prestige and excellence for the Rioja wines, in order to attain a solid market position, independent of the price fluctuations that conform to their intrinsic value.

Another important factor, not related specifically to Rioja, that has contributed to the change of the positioning is none other than the revaluation of the peseta in relation to the U.S. dollar.

In 1985 the exchange rate was 170 pesetas for 1 dollar, in 1990 it was only 102 pesetas, and came down to 92.52 pesetas to a dollar in February 1991. These exchange rate fluctuations of the peseta, coupled with increases in salaries and other costs, including the price increases of grapes, have diminished the profitability of exports to the United States, and consequently has forced the Rioja exporters to increase their prices.

If we make a simple analysis of the last four years of the Rioja campaign, combined with promotional and advertising activities carried out by participating and non-participating wineries and efforts prior to the materialization of the brand generic campaign, we must conclude that the results are mostly of a qualitative nature.

In spite of Rioja's transition, its wine shipments have not been affected as much as those from other European quality wine-producing regions. If at this point, before attaining a position in the regional-generic category where competitive pricing is important but not essential, we were to abandon the promotional and advertising efforts, we would seriously risk losing our position in the "good value" segment, while obtaining the necessary recognition from the U.S. wine merchants and consumers as being among the most prestigious wine regions in the world. Ω

SERGIO ALLARD *is an attorney, with experience in the wine industry for over seventeen years. Since 1984 he has been Director of Wines of Spain for the United States.*

Demings' Message For the 1990's

The Quality Guru wants to teach the U.S. what Japan already knows

BY ANDREA GABOR

For U.S. companies, the Fall has come to be much more than just a prelude to the holiday selling season. It marks the start of a new annual ritual dedicated to the management mantra of the 1990's — the pursuit of quality and competition for the Malcolm Baldrige National Quality Awards.

Created in 1987 by the Commerce Department, the Baldrige Award was to be much more than a congratulatory medal. In over a dozen pages of application criteria that serve as a blueprint for achieving quality, the Baldrige challenges companies to marshall all of their resources, including suppliers and employees, to constantly improve every process in their organizations. Already, past winners of the award, including IBM and Xerox Corp., have spread the quality message throughout U.S. industry as well as the public sector. But as this year's recipients walk away from the fourth annual award ceremonies in Washington, it is unclear whether the Baldrige will succeed in giving U.S. companies the extra edge they need to beat foreign rivals in the 1990's.

> **Deming contends that most performance reviews and rankings are in fundamental conflict with efforts to foster teamwork and quality**

Perhaps the most important thing about the "Baldie" is that it was modeled after a 40-year-old quality prize that has proven to be one of most powerful weapons in Japan's industrial arsenal. Japan's Deming Prize got its name from W. Edwards Deming, a 91-year-old American who helped transform the Japanese economy after World War II. A physicist by training and a statistician by vocation, Deming based his theories on the simple scientific observation that all processes suffer some level of variation that is likely to diminish quality. Thus, any system, whether involving people or machinery, can only be as good as management's ability to control those variations. The use of statistical analysis emerged as the best means for spotting problems and improving everything from manufacturing to product development.

In Japan, "continuous improvement" quickly became the watchword of the total-quality-control (TQC) movement. During the last few decades, the prize has been clinched by a Who's Who of companies that have delivered powerful blows to U.S. industry, including Toyota, Komatsu and Ricoh.

In the early years, the Deming Prize was awarded to manufacturers for improving their production processes. But soon it became a moving target. By the 1970's, only companies that had mastered process improvement throughout the corporation — in marketing and product design as well as manufacturing — had a chance of winning.

American quality experts acknowledge that it will be years before the Baldrige judges can apply the same rigorous standards to U.S. applicants as their Deming Prize counterparts.

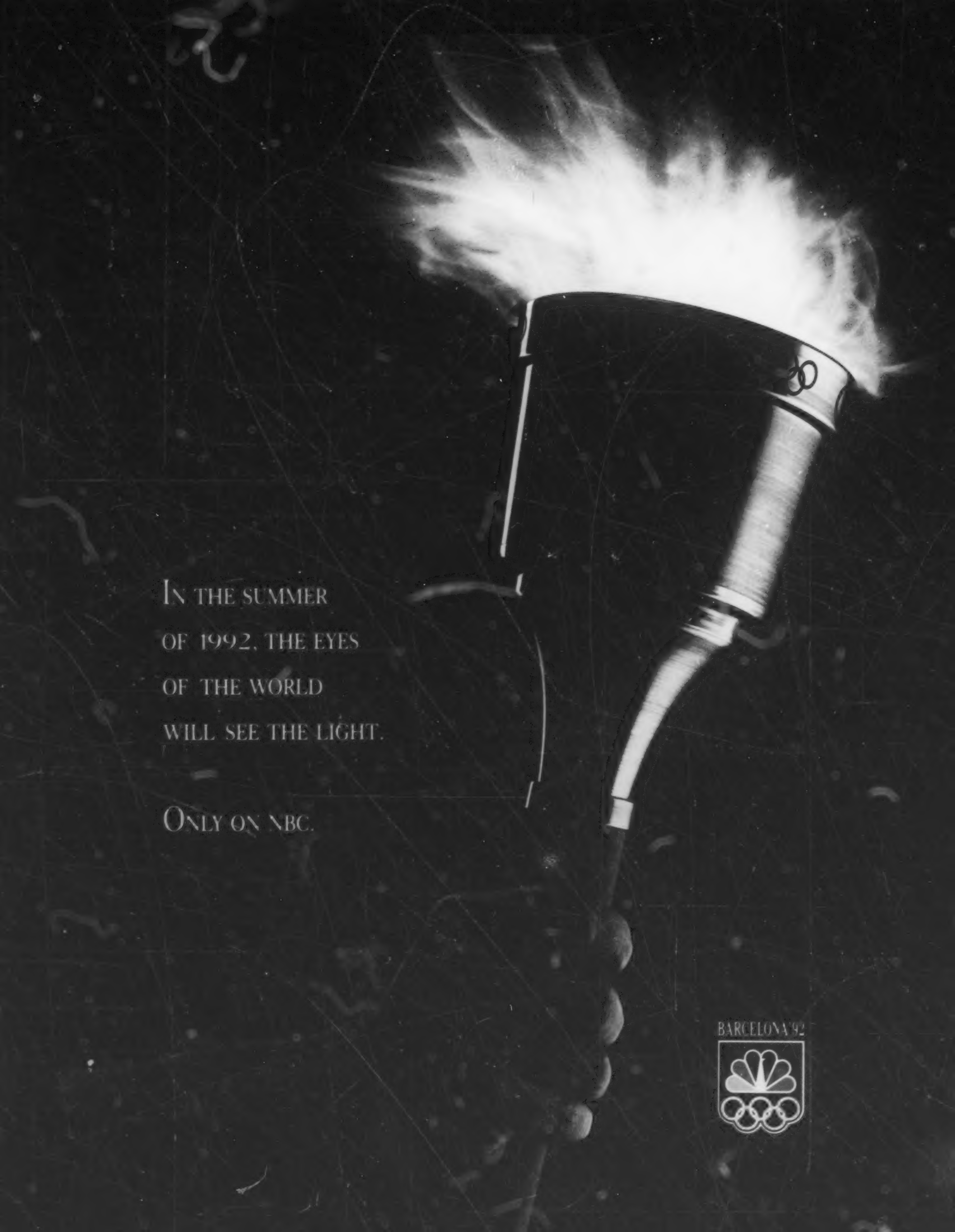
Maybe it's time to start listening again to W. Edwards Deming. These days Deming is pushing some controversial ideas about employee performance appraisals. At a time when companies are searching harder than ever for new ways to motivate employees, Deming contends that most performance reviews and rankings are in fundamental conflict with efforts to foster teamwork and quality.

Not only is America's corporate star system counterproductive, contends Deming, it violates his teachings on variation. According to Deming, if management does its job well, in terms of hiring and training employees, then people will do their best, and their best will be good enough. There will always be variation in performance. But any effort to rate the performance of individuals will be inaccurate and likely to demotivate employees. It will be inaccurate because there's so much outside variation that it is virtually impossible to separate his performance from that of the system. Traditional performance ratings, says Deming, "are just a substitute for poor management."

So, how is American management taking to the latest pronouncement by this famous quality guru? Most companies have turned a deaf ear. But a few, including some units of General Motors, are experimenting with a system that is designed to foster cooperation between employees. This means that employees aren't ranked in relation to each other. And compensation is decoupled from performance appraisals—instead, pay raises are based on seniority and expertise and the results achieved by an entire team or division. In recognition of the fact that no one works in a vacuum, appraisals are based on an assessment of colleagues, subordinates, and superiors.

As competitiveness increasingly hinges on improved service and speedier product development, the companies most successful in harnessing the creativity, productivity, and goodwill of their employees will be the winners in the 1990's. Ω

ANDREA GABOR *is author of* The Man Who Discovered Quality: How W. Edwards Deming Brought the Quality Revolution to America, *which is published by Times Books/Random House. She lives in New York City.*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